Double Issue 

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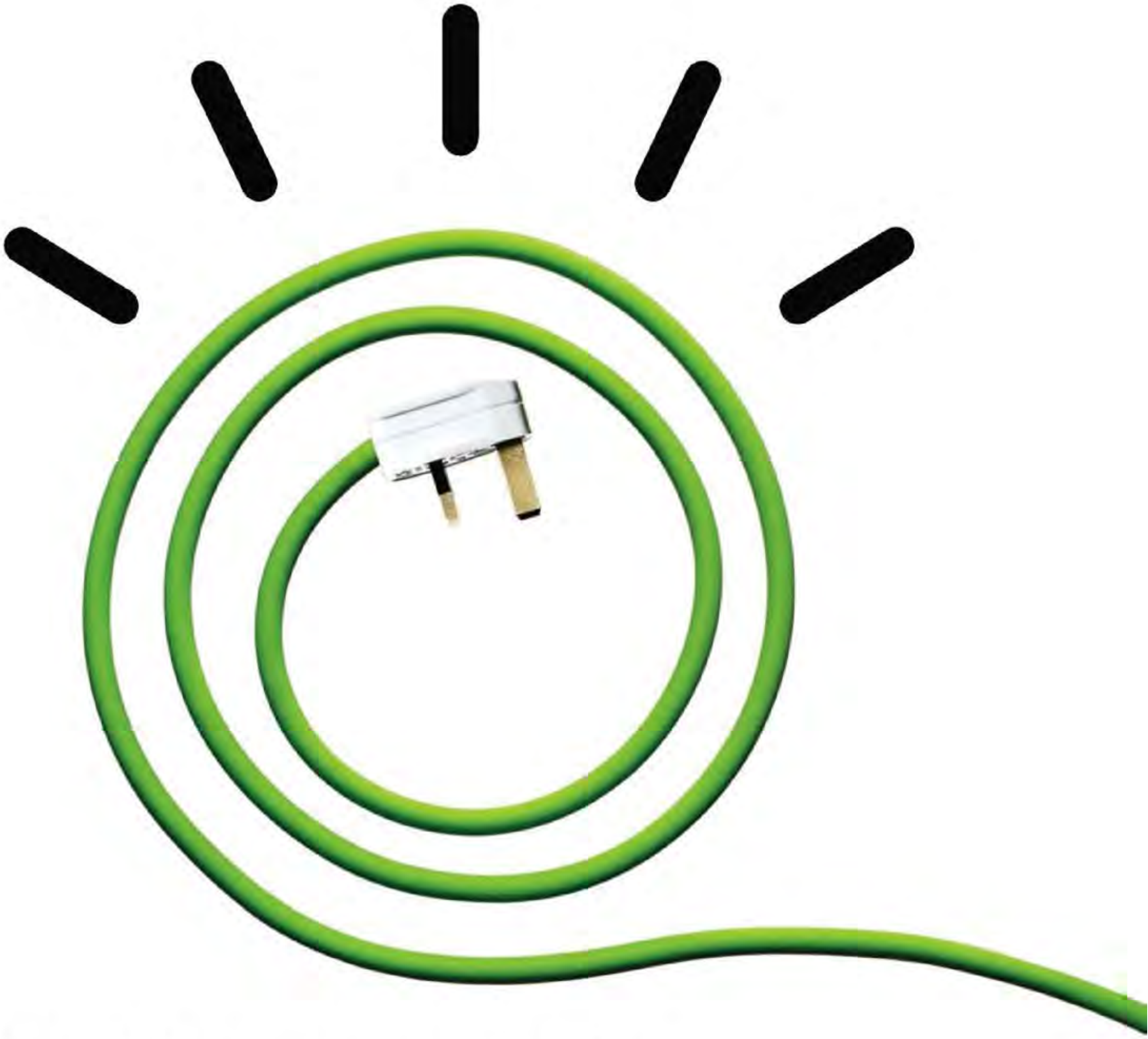
How to Contact Bloomberg Businessweek

Editorial 212-617-6231 **Sales** 212-617-2900 **Circulation** 800-635-1200
Address 731 Lexington Ave., New York, NY 10022
Email bwreader@bloomberg.net **Fax** 212-617-9065

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Corrections & Clarifications

In "The Woman Leading Rothschild's China Push" (Markets & Finance, Aug. 9-15), PetroChina was misidentified. It is China's largest oil producer, not its biggest offshore energy explorer. Also, the Chinese word *guanxi*, as in personal connections, was misspelled.



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Opening Remarks



Mad As Hell

JetBlue's Steven Slater didn't act like a hero when he called it quits. So why is everybody treating him like one? By Devin Leonard

What's remarkable about the case of Steven Slater, the JetBlue flight attendant who quit his job in magnificent style on Aug. 9, is not that an airline worker would snap after an encounter with an unruly passenger on a midmorning Pittsburgh-to-JFK run. It's that so much of the rest of the country applauded. While possibly committing several serious violations of federal law, Slater's every move–using the plane's P.A. system to curse at a rude customer whose bag had landed on his head, politely thanking the other passengers, grabbing two beers from the galley before sliding down the inflatable emergency chute and sprinting toward home–seemed to spring from the collective imagination of a hot, angry, overworked, and underpaid America.

Headline writers describing the incident invoked Johnny Paycheck's No. 1 country hit from the hard times of 1977, *Take This Job and Shove It*. Most of them, however, missed the twist that gives the song its emotional weight: The singer never works up the courage to leave his detested factory job. He simply fantasizes about having "the nerve to say" it, the way so many Americans dreamed themselves into Slater's JetBlue shoes.

Slater–a 20-year veteran of the airline industry who gushes on his MySpace page about his commitment to his career–was lounging in bed with his boyfriend when the police came to arrest him at his Queens (N.Y.) home. As they perp-walked him past the cameras, Slater grinned from ear to ear, as if to tell his fellow Americans: "It feels *great!*"

Facebook fans swapped stories of quitting their own jobs or, more often, shared the dream of shoving it

The public response was swift and overwhelming. People created dozens of Facebook pages with names such as "Steven Slater: Hero of the Working Man." Two days after his arrest the pages had attracted more than 180,000 fans. The admirers were soon sharing quitting stories of their own, occasionally with details about the boss they told off. More often they shared their dreams of doing so. On a page called "Can Steven Slater Get More Fans Than Justin Bieber?" a Facebook user named Karen Bonner struck a typically wistful note: "I wish I had the nerve ... ," she wrote.

We are deep into what is so far the hottest year in recorded history, and into the second year of a prolonged economic slump. Unemployment is

ESA HILTULA/ALAMY

Opening Remarks

In a job market like this, almost everybody feels expendable. It's the job, however unsatisfying, that's hard to replace. Sandwiched between these phenomena, employees feel mounting pressure

stuck at 9.5 percent, with an additional 7 percent of Americans either holding in part-time positions or no longer looking for work and thus no longer even counted as unemployed. A grim new noun has entered the lexicon—"99ers," people whose 99 weeks of extended jobless benefits have all run dry. No wonder the vast majority of people who have jobs aren't about to give up a steady paycheck, no matter what indignities are visited upon them. That doesn't mean they aren't secretly ready to explode. "Slater tapped into a vein of anger that a lot of people have toward their employers," says John Challenger, chief executive officer of Challenger, Gray & Christmas, a Chicago-based outplacement firm. "They are mad about all the layoffs they've gone through at work. They are mad about having their benefits cut."

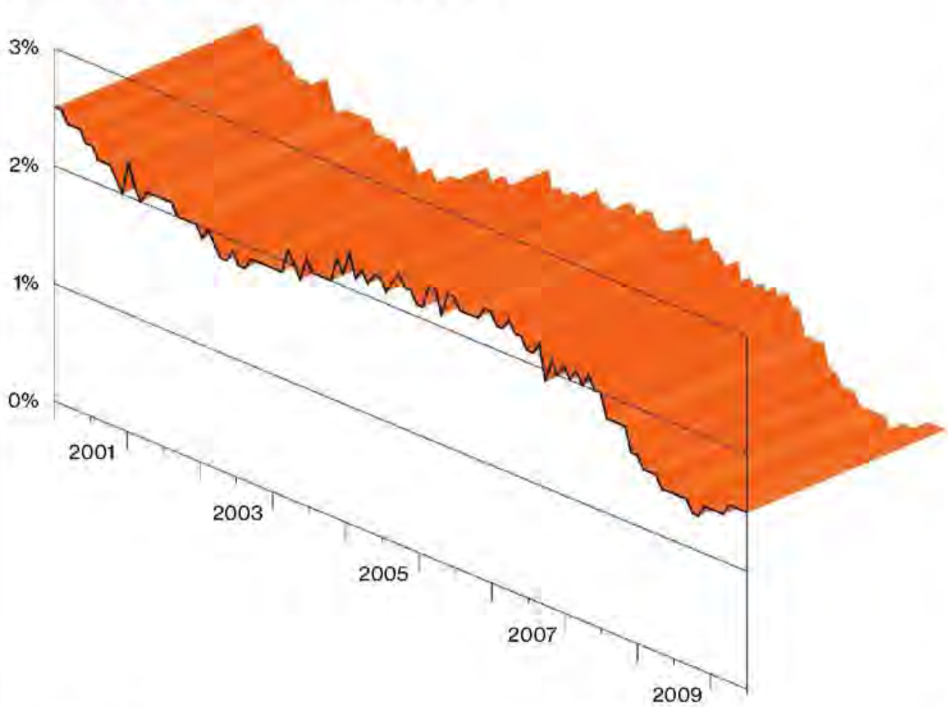
In such an environment you might expect to find more Steven Slaters. Despite some of the recent boasting on Facebook, few people are giving notice. Though the economy showed fitful signs of life earlier this year, people didn't head for the exit chute; the Bureau of Labor Statistics says the rate of people quitting barely budged from January through May. And that was before consumer confidence plunged and economists started talking about the possibility of a double-dip recession. In a job market like this, almost everybody feels expendable. It's the job—however unsatisfying it may be—that's hard to replace.

Sandwiched between these phenomena, employees feel mounting pressure. Last year, according to the federal government, worker productivity climbed 3.5 percent as companies shed millions of employees and figured out ways to get more work from those who remained. It was the biggest increase in six years—and great for corporate profits. It was considerably less great for workplace morale. According to Towers Watson, a benefits consulting firm, employee engagement, or loyalty, declined by 9 percent in 2009. Until the recovery picks up, however, those disengaged workers are staying on.

Maybe the best they can do is reach for a second beer, turn the A/C to deep freeze, and live vicariously through Slater. He has been charged with reckless endangerment and criminal mischief, and faces seven years in prison. Yet only the hardest of hearts would deny him whatever monetization he can muster in return for this welcome moment of wish fulfillment. (Especially since he's caring for his ill mother, herself a veteran of the airline industry.) If nothing else, Slater made a lot of Americans laugh at a grim moment in the life of the country. "What's so great about this is that it's a real life," says Challenger. "It's not scripted. It could have been scripted. I love the fact that he took two beers. If I was a beer company, I'd capitalize on that right away."

Those in corporate America who don't sign him up as a spokesperson would be wise to ponder Slater's case. His admirers may not be as brave or impetuous as their hero, but that doesn't mean they won't be heading for the exits as soon as the economy picks up and new opportunities present themselves. As one of his fans, maskedscheduler, wrote on Twitter: "On behalf of all of us thinking about creative ways of leaving our jobs, screw you Steven Slater for setting the bar ridiculously high." B

Take This Job ...
Employee Quit Rate December 2000—June 2010



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Global Economics

The Crisis Climbs Over the Mountains



▶ **The housing bust arrived late to the Northwest, and is lingering**

▶ **"This is an off-the-chart, extreme financial event"**

With a $150,000-a-year job at a title insurance company, Nan Holmes thought she had an insider's view of the local real estate market when she bought a new three-bedroom home in Boise, Idaho, in 2007. Then she watched the bottom fall out of housing in California, Nevada, and Florida, precipitating a severe recession. Now the real estate crunch has hit Idaho and the rest of the Northwest, and Holmes, 55, is in trouble. The title insurance business has shrunk along with home sales; her income has fallen by half, forcing her to turn to savings. She stopped paying her mortgage in April and put the house on the market for about $145,000 less than she owes the bank. "How long will it take for the market to turn so I can just break even?" she asks.

The mortgage crisis, far from easing, is deepening in the Northwest and Midwest. With 15 million Americans out of work, home prices and consumer spending are under pressure. Another tumble in property values could push the economy back into recession, former Federal Reserve Chairman Alan Greenspan said on Aug. 1. "The numbers are exploding due to unemployment and economic displacement," says Rick Sharga, senior vice-president for marketing at mortgage-data firm RealtyTrac in Irvine, Calif. "We will see them get a lot worse unless we see some job creation."

Foreclosure filings rose in the second quarter in Idaho, Illinois, Utah, and Colorado compared with a year earlier.

The value of residential transactions in Idaho's Ada County is down 62 percent from 2006

Those states all rank among the top 10 in foreclosure rates in the nation. The number of homes seized by lenders at least doubled in 19 states and more than tripled in seven, according to RealtyTrac. Nationally, initial jobless claims rose in July, and unemployment stood at 9.5 percent, near a 27-year high, Labor Dept. figures showed.

"The housing downturn started late in the Northwest, and now it's ending late," says Mark Zandi, chief economist at Moody's Analytics in West Chester, Pa. Boise's median house price was $140,100 in the second quarter, down 34 percent from the peak of $212,800 in 2007, data from the National Association of Realtors show.

The Boise metropolitan area, home to more than a third of Idaho's 1.5 million residents, has been pummeled by housing-related construction and retail job losses. Since 2007, there have been more than 6,000 layoffs at chipmaker **Micron Technology** and grocer **Albertsons**, says Michael Ferguson, the state's chief economist. Idaho's jobless rate was 8.8 percent in July, up from 8.2 percent a year earlier and 2.9 percent in July 2007. "This is an off-the-chart, extreme financial event," Ferguson says. "I wasn't around for the Depression, but in the last half-century there has been nothing like this."

In Charter Pointe, a development built on cornfields 11 miles from downtown, more than half of the homes listed for sale are bank-owned or "underwater," meaning the property is worth less than the mortgage. Dairy cows loiter in a nearby pen, and baling machines grind late at night.

Micron, founded in Boise in 1978 with early investors such as the late potato mogul J.R. Simplot, cut local production and 1,500 jobs



Nan Holmes has stopped paying the mortgage on her Idaho home



Armstrong's image takes a hit
page 22 ►

Tweeted

"I ask the nation to forgive my errors and that there were some things I could not accomplish."
—Message from Colombian President Álvaro Uribe on Aug. 7, his last day in office.



last year, as semiconductor prices fell worldwide. The company has more than 5,000 full-time workers in the area, says spokesman Daniel Francisco. The chipmaker employed twice that number as recently as 2001.

The local payroll at Albertsons shrank following its 2006 buyout by companies including Eden Prairie (Minn.)-based **Supervalu** and **Cerberus Capital Management**, the New York-based private equity firm. The buyout ended seven decades of Boise ownership for the grocery chain, as well as its plans for 1,000 new hires, according to Ferguson.

The state lost 6.9 percent of its jobs from 2008 through 2009, a higher proportion than the U.S. average, and its timber industry declined 38 percent, IHS Global Insight says. Government workers and services haven't been spared. The Idaho state budget, which peaked at $3 billion in 2008, dropped by a fifth, to $2.38 billion, for the fiscal 2011 year that began on July 1. More than 200 positions were cut. Furloughs have been imposed in health and welfare, tax collection, and the attorney general's office.

The value of residential transactions in Idaho's Ada County, which includes Boise, was down 62 percent in June from the peak in 2007, multiple listings data show. Boise had the highest metro area foreclosure rate outside of California, Florida, Nevada, or Arizona in the first six months of the year, according to RealtyTrac. "The worst is over, but it's going to be a long road ahead," says economist Steven Frable at IHS Global Insight.

TitleOne, Holmes's employer, had 175 workers in 2007 as housing boomed. It now has 80. Her loan was referred for foreclosure proceedings in July, an action that happens when a borrower is late by 90 days or more, according to her lender, Charlotte (N.C.)-based **Bank of America**.

Holmes, a divorced mother of two, put her house on the market in June and has applied for a federal program that offers incentives to loan servicers and homeowners to complete "short sales," in which the bank accepts less than what it is owed on the mortgage.

Holmes paid $370,000, with 100 percent financing, and is asking $225,000. Almost a third of real estate listings in her area are distressed properties, with seven months of inventory on the market in Boise at her price. "I was never raised to be in this position," Holmes says, showing pictures of her family, as well as of the oversize sunken tub in her master bathroom. "I've tried to do everything I can think of."
—Dan Levy

The bottom line *Turmoil in Boise, Idaho, illustrates how the housing crisis and recession have hit late and hard in the Northwest.*

Immigration

A Referendum on "Big Australia"

► Attempts to curb immigration could dent economic growth

► "Once unemployment falls below 5 percent it's sort of a danger zone"

With polls showing Australia's general election too close to call, it's uncertain whether Labor Party Prime Minister Julia Gillard will keep her job or be replaced by Tony Abbott, leader of the Liberal-National coalition. Either way, it appears



Australia's Gillard and Abbott face off in a TV debate on July 25

26%

Share of Australia's residents who were born overseas

one group will lose: immigrants.

For six decades, Australia has had a political consensus in favor of immigration. But support is wavering as suburban areas struggle to cope with rising home prices and traffic congestion, byproducts of a sharp increase in new arrivals in recent years. To appeal to voters from those districts, Gillard has said the government needs to do more to manage population growth, though she has stopped short of openly endorsing new restrictions on immigration. Abbott, her opponent, has pledged to reduce immigration levels to 170,000 a year by the end of his government's first term, from 298,924 in 2009.

Economists warn that Australia will risk slower growth and faster inflation if it clamps down on the flow of migrants. A February report from the Australian Treasury forecast the country's population will expand by 1.2 percent a year, to 35.9 million by 2050. Paring that rate by one-third would reduce the average annual economic growth rate to 2.3 percent from 2.7 percent, according to the study.

Australia has been experiencing strong job growth, with much of the gains coming in the mining industry. Curtailing immigration would shrink the supply of workers and potentially set off a spike in wages. To contain the resulting inflation, the central bank might be forced to raise rates, further choking off growth.

The national jobless rate dropped to 5.1 percent in June, compared with an average rate of 5.4 percent over the past decade. "Once unemployment falls below 5 percent, it's sort of a danger zone" for the central bank, says Rob Henderson, chief markets economist at National Australia Bank in Sydney. "Skilled migration forms a very important safety valve in the economy."

Immigration has played a central role in Australia's economic development, dating back to the 18th century when the British government dispatched settlers to establish penal colonies on the continent. One-quarter of the country's 22 million people were born overseas, according to the most recent

The Recovery

The Big Apple Is Recovering Its Shine

Job creation in New York City has been running at almost triple the national rate in 2010. The biggest gains have been in the retail, health, and food-service industries. Real estate is starting to rebound, though both commercial and residential sales are way off their 2007 peaks.
—*Matt Robinson*

June unemployment



Industries with biggest job losses in 2010

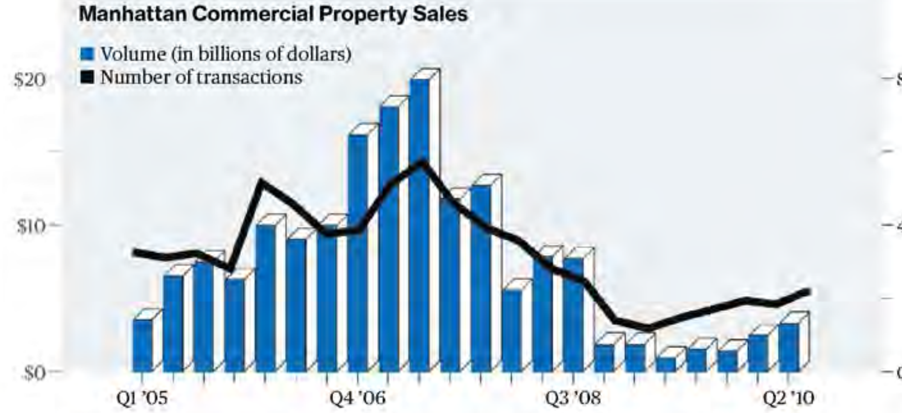
Industries with biggest job gains in 2010



Manhattan Residential Property Sales



Manhattan Commercial Property Sales



DATA: EASTERN CONSOLIDATED; PROPERTYSHARK; COSTAR; NEW YORK CITY FINANCE DEPT.; PRUDENTIAL DOUGLAS ELLIMAN REPORT PREPARED BY MILLER SAMUEL; NEW YORK LABOR DEPT.

PREVIOUS SPREAD: MATTHEW STAVER/BLOOMBERG; CLOCKWISE FROM TOP: PHOTO NEWS/PANORAMIC/ZUMA PRESS; ALAN PORRITT/REUTERS; BRIAN SNYDER/REUTERS

Global Economics

figures from the Bureau of Statistics, about double the U.S. figure. The largest number was from the U.K., at 1.2 million, followed by New Zealand with 494,600, then China with 313,600, and India with 239,300.

The pace of new arrivals has quickened recently, to more than 1.1 million in the past five years, compared with about 575,000 from 2000 to 2004, according to data compiled by Bloomberg. A rising proportion of recent migrants hail from Asia, while the share of those coming from Europe has been on the decline, a trend that has fueled racial tensions. "Gillard can never say so, but Australia is a country where bigotry abounds," wrote one-time Labor leader Mark Latham in an opinion piece published in a leading business paper last month.

Gillard's rhetoric on the campaign trail signals a break from the "Big Australia" policy of her predecessor Kevin Rudd, who was ousted by his party in June after polls indicated he would lose the election. Rudd envisioned a 50 percent surge in the number of citizens over the next four decades. Gillard in a July 20 speech warned against "hurtling down the track towards a big population" and said the current growth model is "irresponsible." To further distance herself from Rudd's policy, Gillard has tacked the word "sustainable" to Population Minister Tony Burke's title.

A more restrictive immigration policy would hit Western Australia particularly hard. The state is at the center of a mining boom driven by demand from China. The region will need an extra 500,000 workers over the next 10 years as companies such as **BHP Billiton** and **Xstrata** move ahead on new projects, says the state's chamber of commerce and industry in Perth. The chamber estimates that even if the population continues to grow at its current rate, the state will be short 200,000 workers by the end of 2020. "We need more people to grow," says Steve Batchelor of **S&N Civil Constructions**, a Perth contractor with mining company clients.

Australia's biggest city suffers from the opposite problem. Congestion in and around Sydney has become such a problem that the local business chamber is calling on the state government to delay starting hours for high schools so as to ease pressure on the transport network. Says Nick Economou, a political scientist at Monash University in Melbourne: "This [issue] is particularly important to voters in western suburbs of Sydney where there are infrastructure and housing problems." —*Michael Heath*

The bottom line *Proposals to curb immigration are favored by many residents in Australia's cities. Businessess in the West need more workers.*

5

PERCENT

Portion of North Korea's $10 million debt to the Czech Republic that it has offered to pay in ginseng

DATA: CZECH FINANCE MINISTRY



The first shipment of gas from Gazprom's Sakhalin-2 docks in Japan

Energy

Gazprom's Delays Cast Doubt on Putin's Goals

- **Tougher competition also threatens Moscow's ambitions**
- **"Gazprom should worry about keeping its share" in Europe**

Just last year, Vladimir Putin boldly declared that Russia would expand its energy industry to become a global supplier of natural gas. Now the Prime Minister's ability to deliver on this plan is in doubt, as state-controlled **Gazprom** has hit a series of delays. In the meantime, ventures in Australia have won contracts from China and a glut of U.S. gas from shale is undercutting prices.

Two main factors have caused Gazprom to postpone export projects: First, Russian politicians have had trouble reaching consensus on how much gas the company should keep at home. The global economic downturn also has reduced overall energy demand, making the economics of gas development less attractive for the Russians.

The resulting uncertainty has caused the Russian energy conglomerate to put off investment decisions for a number of liquefied natural gas (LNG) projects, such as its Arctic Shtokman field. For similar reasons, the company has failed to make a call on whether to expand the $22 billion Sakhalin-2 project, Russia's first LNG plant, which started up last year just north of Japan.

While Gazprom tarries, **ExxonMobil** and other rivals are locking up long-term gas deals with **PetroChina**, China's largest energy company. For Gazprom, it may already be too late to become a truly global player, says Mikhail Korchemkin, managing director at the consultancy East European Gas Analysis. "Gazprom should rather worry about keeping its share in the European market," he says.

Closer to home, Gazprom remains formidable. The world's single biggest gas producer, it supplies about a quarter of Europe's gas needs. Even there, it has lost market share to companies based in Norway and Qatar. Gazprom shares have fallen 9 percent this year, compared with an 8 percent decline in the Bloomberg Europe Gas Index.

Russia has said that it aims to capture 25 percent of the world LNG market by developing gas fields at Sakhalin-2, Shtokman, and the Yamal Peninsula in Siberia. But Keith Bainbridge, a partner at **RS Platou**, a shipping broker and investment bank in London, says: "There's no chance of Gazprom getting 25 percent of the world LNG market. LNG is now a global business." Bainbridge suggests that Gazprom would be better off considering a purchase of an Australian gas project, **Total**'s stake in a Yemen venture, or maybe bid for **BP**'s Tangguh LNG plant in Indonesia.

Moscow-based Gazprom said in an e-mailed response to questions that it plans to participate in LNG projects in the Middle East, Africa, and Latin America. The company did not give details.

"Gazprom has ambitions, but competition and demand dynamics may have a significant impact on plans for presence in the U.S., the share of the European market, and LNG sales," says Valery Nesterov, an analyst at Troika Dialog in Moscow. Russian LNG shipments to the U.S. are planned for 2016 at the earliest, pushed back from an earlier target of 2013. Overall, delays in LNG projects may cost Gazprom as much as $12 billion a year in missed sales, Nesterov estimates.

Gazprom remains upbeat. New LNG demand from importers such as Singapore, it said, will mean that there will be "enough room for everyone."
—*Anna Shiryaevskaya*

The bottom line *Gazprom has delayed decisions about LNG projects, and its rivals are gobbling up market share in natural gas.*

FROM LEFT: KYODO/AP PHOTO; BEN STECHSCHULTE/REDUX

Obituary

Matthew Simmons



1943-2010

The "peak oil" prophet courted controversy with his views, which were influential well beyond his industry

Matthew R. Simmons, an energy investment banker who died on Aug. 8 at age 67, was not the father of the "peak oil" theory. He was simply its loudest evangelist.

The notion that the earth's stores of crude were not boundless had been around since the 1950s. It took a 2003 trip to Saudi Arabia for Simmons, who ran a boutique investment bank out of Houston, to become a convert. After touring the kingdom's oil facilities as a guest of Saudi Aramco, Simmons returned home and began poring over hundreds of technical papers trying to divine how much crude lay beneath the sands. His conclusion was spelled out in the title of his 2005 book, *Twilight in the Desert: The Coming Saudi Oil Shock and the World Economy*.

The book catapulted Simmons into the limelight. A *New York Times Magazine* article and several documentaries followed, allowing Simmons' views to reach the ears of policymakers around the world. "In the history of the petroleum era, Matt Simmons will be remembered for calling attention to 'peak oil,'" said T. Boone Pickens, chairman of BP Capital, in an e-mailed statement. "You had to admire his advocacy and his ability to focus on the need to better prepare for a new energy future."

In *Crude World: The Violent Twilight of Oil*, writer Peter Maass described Simmons as "a card-carrying multimillionaire member of the global oil nomenklatura." A graduate of Harvard Business School, Simmons founded Simmons & Co. International in 1974 and spent the next three decades advising oil companies on deals, including Transocean's roughly $20 billion merger with GlobalSantaFe in 2007. He also counseled George W. Bush during the 2000 Presidential campaign. Simmons retired as chairman emeritus from Simmons & Co. this June so he could devote himself to the Ocean Energy Institute, a Rockland (Me.) think tank and venture capital fund he set up in 2007 to find ways to harness the energy of the seas.

Simmons was never afraid to be contrarian. In July 2008, just days after oil hit a record $147.27 a barrel, Simmons said crude was more likely to climb to $200 than drop to $50 in the next six months. He was wrong. By the close of 2008, it was trading at $44.60 and hasn't returned to triple digits since.

More recently, Simmons courted controversy with his views on what BP should do to stanch its oil spill in the Gulf of Mexico. In a June 15 interview with Bloomberg Television, he said the best option would be to detonate a small nuclear bomb undersea to kill the well. The idea raised eyebrows, but to those who knew him it was vintage Simmons. Says Bobby Tudor, co-founder of the investment bank Tudor Pickering Holt and a neighbor of Simmons in Houston's Museum District: "Matt was very iconoclastic, very outspoken, and never afraid to take a position." —*Edward Klump and David Wethe*

Born ▸ **Salt Lake City, one of six children**

Achievements ▸ **Authored *Twilight in the Desert***

Legacy ▸ **His ideas spurred the quest for alternative energy**

Global Economics



Monetary Policy

The Federal Reserve Pulls A New Lever

- World stock markets fall a day after Fed's balance-sheet maneuver
- "If the actions are not placed in context ... they lose punch"

Since the financial crisis worsened in 2008, the Federal Reserve has acquired probably dozens of new options for influencing the U.S. and world economies, ranging from propping up the commercial paper market to buying mortgage-backed securities to lending dollars abroad in exchange for euros, yen, and other currencies.

The new options, most not currently in use, increase the Fed's flexibility but complicate the job of conducting monetary policy. They also make it harder to communicate that policy to investors and the general public. The risk of adding to uncertainty was apparent after the Federal Open Market Committee's Aug. 10 meeting, at which it announced that "the pace of recovery in output and employment has slowed in recent months." The Fed said that to keep the money supply from shrinking it would stop letting its bond portfolio get smaller. It will begin to reinvest the principal payments on mortgage-backed securities in the Treasury bond market so its overall portfolio of securities owned outright will be stable at a touch over $2 trillion.

Investors were hardly reassured. A day after the Fed rate-setters' meeting, the MSCI World index of global stocks fell by the most since June and the Standard & Poor's 500-stock index sank 2.8 percent. Some investors concluded that the Fed wasn't doing enough to spark growth. "We're in a worldwide soft patch, and investors wonder why the Fed didn't do more," said James Swanson, chief investment strategist at Boston-based MFS Investment Management, which oversees about $197 billion. "People are dumping stocks because they're afraid earnings will decelerate and the economy is losing steam." Others thought the Fed should have done less, not more: Dissenting for a fifth straight meeting was Thomas M. Hoenig, president of the Federal Reserve Bank of Kansas City (pictured), who felt deflation fears were overblown.

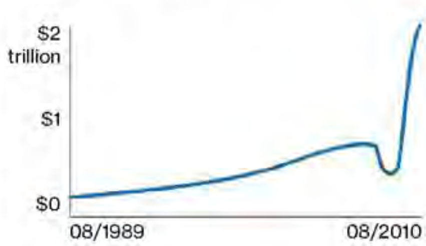
Marvin Goodfriend, a monetary economist at Carnegie Mellon University, said the effectiveness of the Fed's move was undermined by the vagueness with which it was announced. The Fed tersely stated that the reinvestment was "to help support the economic recovery in a context of price stability." Says Goodfriend: "If the actions are not placed in a context that allows the public to understand the follow-through, they lose punch."

The Fed's move isn't completely mysterious. The central bank is taking a middle path between letting its portfolio shrink, which would be a vote of confidence in the economy's health, and resuming big purchases of securities, which it would do if the economy got into deeper trouble. Life was simpler when the only lever to push was the one marked "fed funds." B

—Peter Coy, with Nikolaj Gammeltoft

The bottom line *New options have made the conduct of monetary policy more complex. The Fed's latest move may have confused some investors.*

The Fed's big balance sheet
Securities held outright in the Federal Reserve System (in trillions of dollars)



DATA: FEDERAL RESERVE BANK OF ST. LOUIS

Tom Keene's EconoChat

Tom talks to **David Stockman**, President Reagan's Office of Management & Budget director, about budget deficits.

You've said our era of fiscal irresponsibility started with Nixon and his escape from Bretton Woods. Can you elaborate?
Basically, since then we've had a monetary policy that's based on endless expansion, endless money printing. It has fueled an enormous amount of debt growth. We have $52 trillion of debt on a $14.5 trillion economy today. That's a leverage ratio of 3.6 times [GDP]. It's off the charts, historically. Go back to 1980 and for 110 years before that and the leverage ratio was about 1.6 times. So we're lugging around about $30 trillion of excess debt.

So how do we steer the U.S. toward austerity?
We are going to have to be honest with the American people and say we are, unfortunately, going to have to pay a lot more in taxes to fund the government.

If we assume austerity, do we presume a sharp markdown to our economic output?
I think we are going to have almost no economic growth for the next 5 to 10 years. We are going to be in debt liquidation. I think unemployment is going to stay exceedingly high. It will go into double digits and stay there.

What about the markets?
I think the stock market is an accident waiting to happen right now. Once the market realizes that the earnings that are being capitalized are phantom, we're going to have a day of reckoning. B



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

FROM LEFT: TAMI CHAPPELL/REUTERS; ANDREW HARRER/BLOOMBERG

DID YOU KNOW ▶ THE U.S. TRANSPORTATION SECTOR CONSUMES 14.3 MILLION BARRELS OF OIL A DAY, 70% OF WHICH IS IMPORTED.



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Natural gas for transportation is not a new idea; it is a proven technology. In fact, it's been around for decades globally. Natural gas vehicles (NGVs) are widely available for rental in Europe. And yet, here at home, NGVs currently use less than 1% of the U.S. natural gas supply.

If we're serious about ending our addiction to foreign oil and moving our country forward into a clean energy economy, we've simply got to get serious about the vast potential of natural gas.

Consider this: If we merely converted our over-the-road trucks, metro buses, refuse trucks and fleet vehicles to clean-burning American natural gas, we could reduce our foreign oil dependence by at least 30% within 10 years, all while improving our environment and saving $1 trillion of hard-earned American income as a result.

NGVs DRIVE AMERICAN JOBS

Converting U.S. fleets to natural gas can have a tremendous impact on the American job market. In fact, more than 600,000 direct and indirect jobs can be created through industries that manufacture natural gas fuel system equipment, build and install hardware at fueling stations and manufacture and construct production facilities for liquefied natural gas.

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Companies&Industries



Interim CEO Cathie Lesjak quickly said she doesn't want the top job

Why HP Can't Cut Its Way to Growth

▸ **With Mark Hurd out, cost-cutter Lesjak must keep HP focused**

▸ **"They need to hire someone who has their eye on growth"**

Cathie Lesjak kept a low profile during her 24 years at **Hewlett-Packard**. Other than speaking at a few investor events each year, Lesjak, who took over as chief financial officer of the world's largest PC maker in 2007, usually yielded the floor to CEO Mark Hurd and the other executives running HP's businesses.

That all changed on Aug. 6 when Hurd, who HP said violated the company's business conduct standards, resigned after an investigation into a sexual harassment claim unearthed expense report irregularities. HP quickly named Lesjak as interim CEO. She participated in an impromptu conference call with financial analysts, talking up her confidence in HP and sharing her "irrefutable" belief that HP will stay focused while the board searches for a new chief. Then, Lesjak made it clear that she doesn't want the top job.

If Hurd made his name as the king of cost cutting, expanding HP's earnings by hacking jobs and shutting offices in a quest to wring profit from every corner of the sprawling company, then Lesjak was his queen. During the earnings calls held each quarter after Hurd promoted her from treasurer to CFO, Lesjak, 51, advocated a lean, mean operational strategy. That belt-tightening paid off: Profit tripled from fiscal 2005 to 2009, far more than HP's 32 percent sales rise.

Nevertheless, Wall Street analysts and some investors have been grumbling for months that cutting costs—no matter how adroitly—isn't enough for the tech giant. HP now needs a CEO with a strong technology background who can craft a strategy to fuel internal growth, according to Louis Miscioscia, an analyst with Collins Stewart in Boston. "I'm not implying a Steve Jobs kind of visionary," says Miscioscia, referring to **Apple**'s CEO. "But they need someone who understands where the IT industry is going."

Three years ago the Palo Alto (Calif.) company surpassed **IBM** to become the world's No. 1 supplier of information technology, including PCs, printers, computers servers, and software. This year analysts are projecting HP will rake in about $125 billion in sales, up from $115 billion in 2009.

Hurd leaned heavily on acquisitions to help propel growth, with his biggest bet the 2008 takeover of computer services powerhouse EDS for $13.2 billion. That deal gave HP the No. 2 spot behind IBM. The spending spree continued this year. In April, Hurd paid $2.7 billion for networking-gear maker 3Com to expand into a market dominated by **Cisco Systems**. In July, HP completed its $1.2 billion buyout of smartphone maker Palm, reviving its own lackluster mobile-phone business and adding technology it plans to use to build tablet computers and challenge Apple's iPad.

Even so, Hurd, with help from Lesjak, reaped more benefit from slicing and dicing than expanding sales. Now some on Wall Street say that strategy has run its course. "They have cut costs from existing businesses and companies they acquired, growing the bottom line faster than they've grown the top line," says Michael Binger, a portfolio manager at Thrivent Investment Management, which has about $70 billion in assets, including HP's shares. "At this point, they need to hire someone who has their eye on growth."

The board set up a search committee to find Hurd's replacement "as fast as possible" and will look at both internal and external candidates, Internet browser pioneer Marc Andreessen, who became an HP director in September, told analysts last week.

HP watchers expect the CEO search to go quickly, noting that Hurd was named Carly Fiorina's successor

EDWARD CALDWELL

New Jersey bets on Atlantic City page 31 ▶



less than seven weeks after the board fired her in February 2005. If history repeats itself, HP could introduce a new CEO by Sept. 28, when it's slated to hold its annual gathering for investors.

Todd Bradley, head of the PC unit, and former **EMC** executive Dave Donatelli, who joined HP last year to run the server, storage, and networking division, are among the insiders seen as likely candidates. But HP is just as likely to look to an outsider, as it did when it picked Hurd, former CEO of ATM maker **NCR**. "Mark Hurd's shoes will be tough to fill," says analyst Shaw Wu of Kaufman Bros. "In terms of what Cathie needs to do, it's really about staying the course and trying to keep HP employees focused on what they need to do."

If anyone knows how things work at HP, it's Lesjak, who has spent almost half her life there. Before being named CFO, the University of California at Berkeley MBA grad oversaw HP's cash, debt, and foreign currency holdings.

Barclays Capital analyst Ben Reitzes says that since Lesjak, who has a deep understanding of HP's costs, will return to her CFO role, HP's board can recruit a tech industry veteran more concerned with growth. In the meantime, he's counting on her to keep HP's business leaders–Bradley, Donatelli, printer chief Vyomesh Joshi, and Ann Livermore, head of the enterprise business group–motivated and happy to remain part of Team HP. "HP is not a one-man show," Reitzes says. Those managers "need to be retained in order to keep HP running smoothly."

68%

Increase in the gross margin at HP during Mark Hurd's five-year tenure

Lesjak has been singing that tune to Wall Street and HP's more than 300,000 workers. "One thing changed in this company on Friday, and that is our CEO left," she said during an Aug. 8 conference call. "Our management breadth and depth in the company is as strong as it's ever been." *—Connie Guglielmo, with Rochelle Garner*

The bottom line *HP's interim CEO, Cathie Lesjak, is known for cutting costs. Analysts say the company needs a future CEO focused on growth.*

Retailing

Williams-Sonoma's New Recipe



▸ **In a home sales slump, the retailer looks to renovations and the Web**

▸ **Its West Elm chain "plays well with the post-college urban consumer"**

When Laura J. Alber was named chief executive officer of **Williams-Sonoma** in January, she got some advice from the company's 94-year-old founder, Charles E. "Chuck" Williams: "Don't change it. Make it better." If only it were that simple. The housing slump and sagging consumer confidence have hammered the home goods industry. Williams-Sonoma, which besides its namesake stores also owns Pottery Barn, Pottery Barn Kids, and West Elm, has seen sales fall for the past two years. While the San Francisco-based retailer expects revenues to rise to as much as \$3.37 billion this year, 9 percent over 2009, that's well below the record \$3.94 billion of 2007.

Alber, 41, a Williams-Sonoma veteran who ran Pottery Barn during the housing boom, says her strategy for tougher times involves snatching share by expanding West Elm and boosting online sales for the whole company. While a slump in home buying means less demand for couches, espresso machines, and bed linen, Alber is counting on Americans to renovate the homes they have. "When you start painting," she says, "it becomes a huge project because everything else then looks bad."

During her tenure at Pottery Barn from 2002 to 2006, Alber oversaw an expansion from 172 stores to 289. Now she wants to do the same with West Elm, which sells moderately priced modern furniture in 37 stores, largely on the U.S. coasts. Alber has broadened West Elm's offerings to appeal to a wider demographic. She stocked \$7.99 soap dishes for budget-minded consumers who might otherwise head to **Ikea** while adding goods from name designers such as a \$64 holiday decoration by David Stark. "West Elm is a brand that has national potential," says Joseph Feldman, an analyst with Telsey Advisory Group. "It plays well with the post-college urban consumer." Alber's big challenge, he says: finding good store sites. Since West Elm appeals to urbanites, its stores require prime street addresses that are harder to come by than space in a mall.

Alber's targeting of owners upgrading their homes makes sense, says Feldman, who estimates that four-fifths of home furnishings sales stem from renovations. The longer a family stays put, the more it's likely to spend, and on bigger-ticket items, he says.

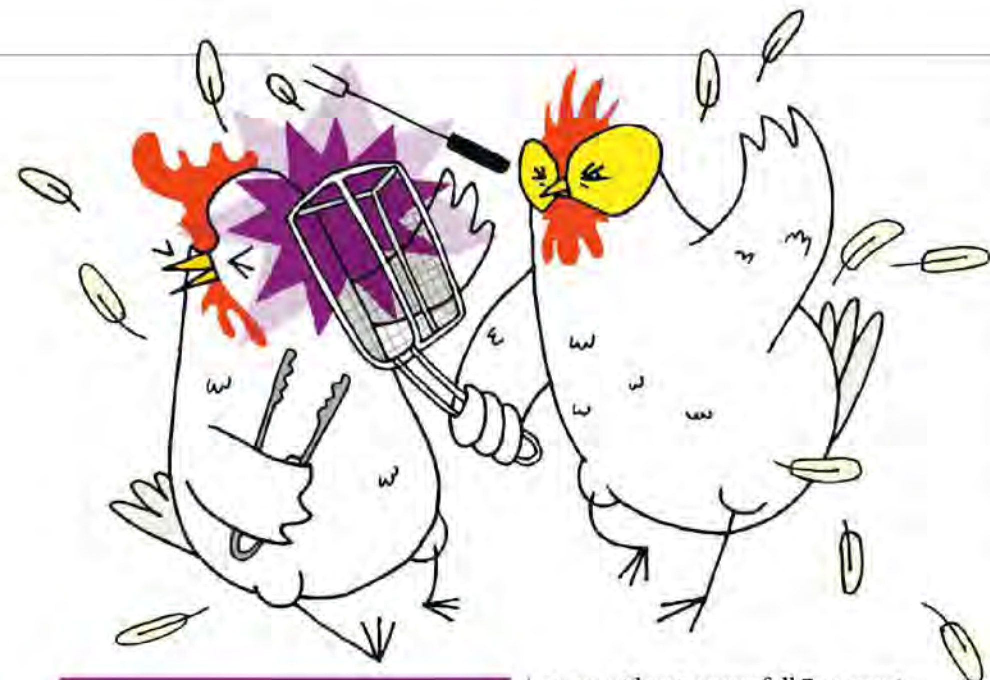
Williams-Sonoma says online sales of home furnishings will grow by \$2.5 billion in the U.S. over the next five years, and Alber wants a big chunk of that growth. Her company dominates home furnishings online, with \$943 million in Web sales last year, more than triple that of its nearest rival, **Crate & Barrel**, says Matt Nemer, a Wells Fargo analyst.

Williams-Sonoma's exclusive merchandise makes it "**Amazon**-proof," Nemer says, because shoppers can't easily compare prices on the Web. And the 52 million names the retailer has collected partly through its catalog operation give it marketing punch. For example, it used data collected on buyers of its cribs to later sell toddler and twin beds, then teen goods, and now items in Pottery Barn's dorm catalog.

Still, the retailer faces plenty of challenges. Williams-Sonoma Home, which sells luxury home goods, is struggling. Alber will close two West Elm stores in coming months; she's looking for better locations. And she faces stiff competition from Crate & Barrel's 10-year-old CB2 stores, which target the same urban stylistas who shop at West Elm. Five years ago the red-hot home market would have made such problems seem small. Says Cowen & Co. analyst Laura Champine: "You're probably not going to get another housing boom like that." *—Cotten Timberlake*

The bottom line *Williams-Sonoma is betting on a more aggressive online strategy and expansion of its moderately priced West Elm chain to revive growth.*

ILLUSTRATION BY ALEX EBEN MEYER; COLONEL SANDERS: BETTMANN/CORBIS; OPPOSITE PAGE: DAVID PAUL MORRIS/BLOOMBERG



Restaurants

At KFC, a Battle Among the Chicken-Hearted

- ▶ Franchisees are angry over the chain's coolness toward fried food
- ▶ "The general public doesn't give a damn how many calories are in it"

Marilynn Pankratz fondly recalls the time Colonel Sanders donned an apron at her Kentucky Fried Chicken restaurant and taught the staff how to fry chicken according to his Original Recipe. Ask her if **KFC**'s current president, Roger Eaton, would do the same, and she's off: "Roger Eaton and his company don't give a rat's ass," says Pankratz, who has run KFC franchises since 1963 and operates eight in Florida and Louisiana. "They hire marketing guys with blue blazers who tell us what to do with our damn stores. But it's one thing to be behind the big mahogany desk calling the shots and another to be down here in the trenches."

Pankratz is part of a group of franchisees who blame KFC's falling sales on Eaton's decision in early 2009 to emphasize grilled chicken and sandwiches over KFC's bone-in fried fare. Managers at the **Yum! Brands**-owned chain say they're trying to reach health-conscious, on-the-go consumers. Many franchisees say the strategy confuses customers and hurts the brand. Second-quarter revenue at U.S. stores open at least a year fell 7 percent.

In January the KFC National Council & Advertising Cooperative, which represents all U.S. franchisees, sued KFC to gain control of ad strategy. The Association of Kentucky Fried Chicken Franchisees, which speaks for about two-thirds of all U.S. KFC restaurants, has hired Larry Light, once **McDonald's** chief marketing officer, to bolster local marketing independent of headquarters.

KFC, which calls the lawuit "baseless," didn't make Eaton available because of the litigation. "KFC's strategy is derived from extensive consumer research," spokeswoman Laurie Schalow wrote in an e-mail. "While some franchisees may not be aligned with this strategy, Roger Eaton is executing a plan that will ensure the KFC brand remains relevant with consumers."

The civil war over what KFC should stand for erupted last year when the company introduced grilled chicken with the slogan "Unthink KFC." Some franchisees saw it as a bald effort to distance the chain from its much-cherished Southern fried legacy. "Kentucky Fried Chicken hit the streets with 11 herbs and spices, pressure-cooked, and by and large the general public doesn't give a damn how many calories are in it," says Wallace Fowler, who runs 60 franchises with his son Chris in Arkansas, Missouri, Illinois, Kentucky, and Tennessee.



"'Unthink' hurt KFC as a brand," adds Chris. "We told our customers not to think of us as a fried chicken chain." KFC management dropped the "Unthink KFC" national campaign in May.

Tempers flared again when KFC launched a grilled chicken giveaway on *Oprah* in May 2009. Management told franchisees to expect a couple hundred customers to redeem online coupons at each store, says Pat Dempsey, who owns seven franchises with her husband. Thousands showed up. Dempsey says she and other franchisees ran out of food and had to placate angry customers. "The cost to the franchisee was much larger than they said," says Dempsey, who estimates the promotion cost her as much as $15,000. "That started a continued downfall in trust." KFC canceled the promotion, and Eaton apologized to customers in an online video.

Grilled chicken sales have dwindled since, says Larry Starkey, who owns seven franchises in Massachusetts and Rhode Island. Grilled chicken accounts for about 16 percent of all "on the bone" chicken sold, according to Starkey. He says an internal survey of 642 franchisees showed almost 50 percent of stores' grilled chicken is thrown away.

According to the complaint filed by the franchisee association, KFC takes a hard line on advertising. If franchisees don't vote to approve ads, it says, the company pulls all national spots from TV for the month. After the two sides reached an impasse earlier this year, one national KFC advertising campaign went dark in July, says Starkey, who serves on the chain's cooperative ad panel.

Franchisees are working with Light to develop their own marketing. So far the group has created an in-store promotion to celebrate this month's 70th anniversary of Original Recipe, complete with pennants depicting fried chicken buckets and life-size standups of Colonel Sanders. Unlike KFC's corporate advertising, the franchisee group's ads and promotions will emphasize fried chicken.

Not all franchisees agree with suing the parent. Charles Nailen, who owns 28 stores, says the timing is wrong: "We ought to be walking arm in arm to figure out a way out of this sales decline. We ought to be shooting the competition. Instead, we're shooting one another."
—*Burt Helm, with Alex Sherman*

The bottom line *Some KFC franchisees are at war with the chain, which they believe is unwisely turning its back on its Southern fried heritage.*

Enterprise

Betting on Incubators To Create Jobs

- The number of programs that nurture startups is at a record level
- "This is the highest interest we've seen from Capitol Hill"

Back in 2008, when **BizVeo** was little more than a business plan in a home office, its two founders joined the **Youngstown Business Incubator** in northeastern Ohio. Today, two of the eight-person startup's clients each pay around $65,000 a year to use its software, a video communication tool linking doctors and patients. Chief Executive Tony DeAscentis says the business should be profitable by mid-2012, about four years sooner than he had expected. Incubators are "without a doubt the best thing someone could ask for," says DeAscentis, 49, who also used the Youngstown incubator to launch, with partners, his first venture, **Turning Technologies,** now a 200-employee, $40 million maker of software that conducts real-time polling of audiences while they're watching a presentation.

Business incubators, the bulk of which are independently operated nonprofits that provide startups with cheap office space and professional advice, took off in the 1980s only to stall after the dot-com bubble burst. They're now back to a record high, according to the National Business Incubation Assn. (NBIA), with some 41,000 startups using 1,200 incubators across the country. Participants' survival rate after five years is 87 percent, compared with 44 percent for companies that didn't use incubators, according to the group.

High unemployment and the need to replace jobs lost at dying industries have been driving forces behind incubators since the first one was created in Batavia, N.Y., in 1959. Increasingly, lawmakers in Washington are embracing incubators as a relatively easy and cheap way to fuel future job creation. "This is definitely the highest interest we've seen from Capitol Hill," says Linda Knopp, NBIA's spokesperson. NBIA Chief Operating Officer and Vice-President Tracy Kitts attributes the surge to the recession's impact on employment and a recent study by the Commerce Dept.'s Economic Development Administration that found that, when it comes to producing jobs, investments in incubators have a higher return on dollars spent than public-works projects such as road building. In 2009, EDA invested $80.7 million in incubators, which it says resulted in 8,746 jobs, and it plans to invest even more in 2010.

In April, Representative Tim Ryan (D-Ohio) introduced a bill that would allow EDA, which currently limits its incubator funding to construction and renovation projects, to include grants of up to $3 million for operations and support services. Ryan says the suc-

PHOTOGRAPH BY JESSICA ANTOLA FOR BLOOMBERG BUSINESSWEEK



cesses that the Youngstown Business Incubator and the nearby **Akron Global Business Accelerator** have had creating jobs in industrial ghost towns prompted the bill. (Both incubators are in his district.) "It's not 1960 where General Motors is going to come and drop in a plant with 15,000 jobs," Ryan says. "Those days are over. You're growing your own businesses now."

Another bill, the Early Stage Business Investment & Incubation Act of 2010, introduced by Representative Suzanne Kosmas (D-Fla.) in May, would use $250 million to establish the first funding program for business incubators targeting high-growth industries across the country.

Some doubt incubators' effectiveness. Alejandro Amezcua, a PhD candidate in the Public Administration Dept. at Syracuse University, is completing a study to see how successful business incubators are at creating lasting businesses and jobs. Amezcua examined 19,000 incubated companies and found that they failed at almost the same rate as companies that hadn't used incubators. "Based on the preliminary findings," Amezcua says, "the claim that business incubators are successful at generating employment growth is overstated."



DeAscentis developed his Ohio software outfit, BizVeo, in an incubator

Many new incubators are specializing to increase their potential. Historically, most programs accepted as a tenant any startup with the potential for growth and profitability. About 80 percent of the incubators created in the past few years are focused on one or two industries, says Carol Lauffer, a partner at **Business Cluster Development**, a Portola Valley (Calif.) consulting firm that plans and develops sector-focused incubators for local governments, universities, and large businesses. By limiting their focus, proponents say, facilities can invest in specialized equipment and tenants are more likely to share ideas.

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Some single-sector incubators such as the **Intervale Farms Program** in Burlington, Vt., are designed to bolster fading industries. Intervale helps farmhands start their own farms by providing access to equipment, land, and infrastructure. On Intervale's 350 acres, 11 to 15 businesses operate at a time, with younger startups learning from older tenants. Mandy Davis, who manages recruitment and services for participants, says the incubator creates 60 jobs a season, with graduating tenants eventually creating jobs when they strike out on their own.

"The advantage with these types of incubators is that they are building upon their strengths and resources," said U.S. Commerce Secretary Gary Locke in an interview, referring to the companies and owners that collaborate while at single-sector incubators. "We really think they'll have tremendous payoffs for job creation and business across the country." —*Lauren Hatch*

The bottom line *Policymakers are increasingly turning to business incubators, which aid startups, in hopes of spurring local job creation.*

Retailing

Best Buy Sees a Future In Mobile Broadband



▸ The retailer thinks it can succeed where others have failed

▸ "There could be hundreds of billions of ... devices wirelessly enabled"

Best Buy is a big seller of wireless gadgets like laptops and mobile phones. Now it wants to sell the services they communicate over, too. In late July the nation's leading consumer electronics retailer said it would begin reselling **Clearwire**'s 4G mobile broadband service under its own brand, Best Buy Connect, starting in 2011.

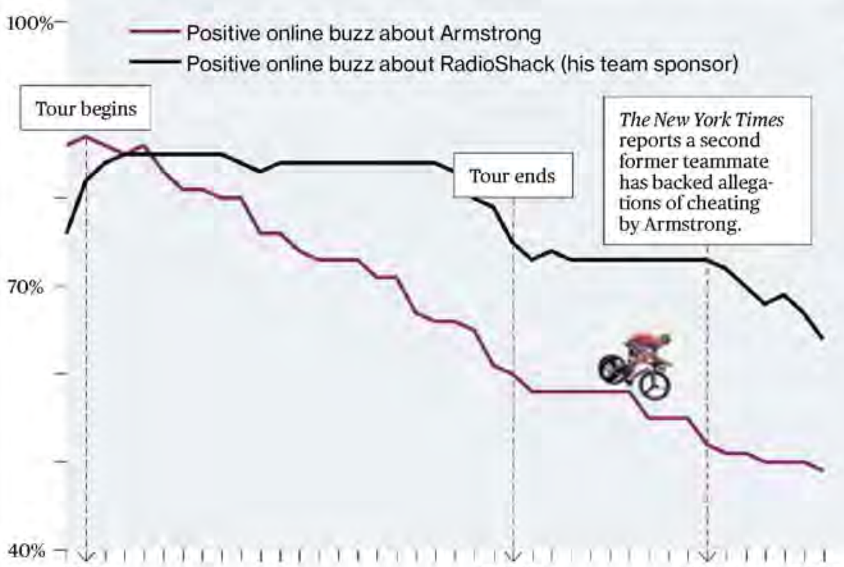
Dozens of companies have tried unsuccessfully to build a business providing wireless voice and Web access over networks leased from others. ESPN Mobile, Disney Mobile, and Amp'd Mobile are among the ventures that failed in a field known for its high setup and marketing costs and paper-thin margins. "It's been a disaster," says John Strand, CEO of Strand Consult in Denmark. These so-called mobile virtual network operators (MVNO) look like traditional wireless carriers to customers but don't own or maintain their own networks.

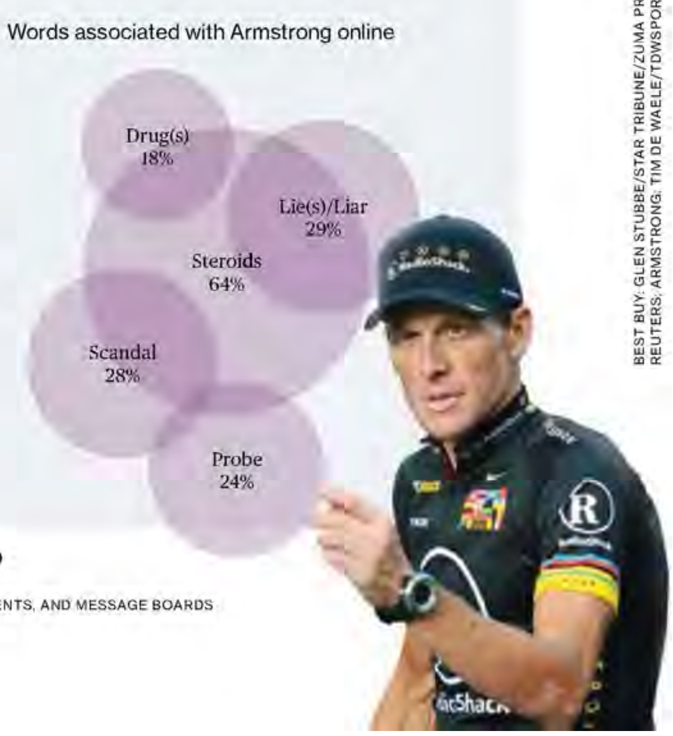
Best Buy thinks it can succeed where so many others haven't because it won't have to spend heavily on the setup and marketing costs that tripped up other players. The $49.7 billion retailer already has call centers to handle customer service inquiries. Distribution? Best Buy will sell mobile plans in 1,017 of its 1,089 stores in the U.S. and market them in the millions of local newspaper inserts that it already produces to advertise its

Endorsements

Amid doping furor, Lance Armstrong's reputation heads downhill

Seven-time Tour de France winner Lance Armstrong is an endorsement powerhouse. His sponsors include RadioShack, Nike, and Nissan. In May, former teammate and admitted doper Floyd Landis alleged Armstrong used performance-enhancing drugs. Armstrong says he's never doped, but tracking by Zeta Interactive shows his image is taking a hit. —*Ira Boudway*





DATA: ZETA BUZZ, A DAILY TRACKING OF MORE THAN 200 MILLION BLOGS, TWEETS, SOCIAL MEDIA COMMENTS, AND MESSAGE BOARDS

BEST BUY: GLEN STUBBE/STAR TRIBUNE/ZUMA PRESS; ARMSTRONG ON BIKE: ERIC GAILLARD/REUTERS; ARMSTRONG: TIM DE WAELE/TDWSPORT/CORBIS; OPPOSITE PAGE: IMAGINECHINA

consumer electronics gear nationwide. One of the additional costs, the retailer says, will be sending its new broadband customers a monthly service bill. "The economics of this business model are very solid," explains Jed Stillman, Best Buy Connect's vice-president for business development. "The distribution aspect that's been costly and difficult for others is not there."

Best Buy says it hopes to turn a profit with Best Buy Connect. It also has a strategic reason for launching the service: It wants to become a one-stop shopping locale as the market for mobile broadband devices takes off. The company already says it sells one in three PCs in the U.S. ABI Research expects the number of wireless-enabled electronic devices—not including phones and laptops—will double, to 5 million, in 2011. That includes e-book readers, Internet-ready televisions, and car navigation units. In early August, Best Buy's chief technology officer Twittered that the company was investigating its own tablet computer. "We are just at the tip of the iceberg," says Michael Antieri, president of AT&T's unit promoting wider use of wireless-enabled devices. "There [eventually] could be hundreds of billions of machines, sensors, [and] devices wirelessly enabled."

In its stores, Best Buy already sells wireless broadband service offered by **Verizon Wireless**, **Sprint Nextel**, and **AT&T**. So with the rollout of Best Buy Connect, the retailer is set to compete with those partners. AT&T declined to comment. Sprint spokesman Scott Sloat says "partners like Best Buy have access to additional channels that can reach customer segments that Sprint may not be reaching." Best Buy recently began reselling Sprint's 3G service under its own brand. Shaw Wu, an analyst at Kaufman Bros., says there are mutual benefits for telecom operators: "They need Best Buy, and vice versa."

The retailer says Best Buy Connect's edge will be its ability to provide customers with one-stop shopping for a wide range of wireless devices, broadband, and customer service. "Best Buy Connect is going to be right for some people and not right for others," Stillman says. "At the end of the day, they'll choose." —*Olga Kharif*

The bottom line *Eager to position itself for growth in the sale of wireless-enabled devices, Best Buy is starting its own mobile broadband service.*



Consumer Electronics

Foreign Makers Tune In To China's TV Market

- **Electronics giants battle for share in the hottest market for televisions**
- **"The market is totally different from the U.S. and others"**

Talk to Yin Weiguang and you'll quickly understand why foreign makers of televisions are having a tough time making inroads in China. The 55-year-old retired construction worker in Beijing isn't wowed by fancy technology or cutting-edge design; price is his hot-button issue. "I don't really care about fancy features," says Yin, who recently paid 2,799 yuan ($413) for a 32-inch set made by **Skyworth Digital Holdings**, China's largest homegrown TV manufacturer. "I just use it for basic entertainment: watching news, weather forecasts, and TV series."

Forget about the marketing wars in the West over who has the thinnest screens or the ability to view 3D movies. In China, price can make or break a TV sale. That's forcing **Sony** and **Panasonic**, the world's two largest makers of consumer electronics, to slash some TV prices by a third in China after being outsold 6 to 1 by Shenzhen-based Skyworth. Sony aims to double TV shipments in China this fiscal year, and Panasonic expects 50 percent growth in the world's second-largest market for flat-panel TVs. To play in this huge market, companies are willing to slash prices.

"The price battle in China will likely intensify as local manufacturers, South Korean makers, and Japanese companies all fight for market share," says Yoji Takeda, who heads the Asian equity management team at RBC Investment Management (Asia). "Prices will probably continue falling with increased market supply during the second half."

In December, Sony offered a 32-inch set for 3,000 yuan, or 33 percent off the previous low price for that size, targeting customers in regional cities and rural districts, says Yuki Shima, a Sony spokeswoman. To help cut costs, Sony has increased outsourcing of television production to **Foxconn Technology Group**, the Chinese company that's the world's largest contract manufacturer of electronics.

Panasonic, the world's biggest maker of plasma TVs, may cut prices of some models in China by as much as 50 percent this year, says Hitoshi Otsuki, senior managing director of the company's overseas operations. "The market is totally different from the U.S. and others," Otsuki says. "In China, domestic manufacturers are very powerful, especially in low-end products. The smaller sets are the fastest-growing area and the most difficult for us."

Sales of liquid-crystal-display TVs in China will rise 15 percent, to 45.5 million, next year and overtake North America shipments, estimates market researcher

➔ 27

Charlie Rose talks to

Michael S. Malone



The Silicon Valley journalist and author of *Bill & Dave: How Hewlett and Packard Built the World's Greatest Company* discusses Mark Hurd's exit

What questions do you have about the departure of Hurd?
The biggest question is why. There are several scenarios, and none of them have quite played themselves out yet. Here we have a CEO who supposedly resigns because of misbehavior regarding this actress for whom he apparently dummied up some expense forms. That's the original story we heard. And the reaction is, O.K., you know, that sounds possible. If he committed a crime, then he should go. But he wasn't fired; he's allowed to resign with a severance package worth $40 million or more, which suggests that maybe there isn't a criminal case against him. So why did the board ask him to resign? It appears that nothing was ever consummated with the gal; and secondly, the threat of sexual harassment doesn't seem to be as clear as we thought at first. Finally, if he did bad expense accounting, it seems like he may have only done it once. That's pretty small potatoes to force the resignation of a guy who's just turned your company around.

The second scenario, and this is the one fueling rumors in Silicon Valley, is that the other shoe hasn't dropped, that the board has more information of a deeper criminal nature that hasn't come out yet, and that they allowed Hurd to leave without having to expose all this dirty laundry. Another scenario is that the board is just so scarred and gun-shy after all the scandals of the last six years, starting with Carly Fiorina and the revolt of the employees and the whole going-in-the-garbage-of-reporters scandal, that when faced with a potential additional scandal—and one so deeply against the HP culture—it choked, ran scared, and said, "You got to go," just to try to bury this thing as quickly as possible.

The final scenario is that the board used this moment to get rid of Hurd. For all his incredible success, people are talking about what a bad boss he was. Chuck House, who was kind of the golden boy for 30 years at Hewlett-Packard and is at Stanford now, called Hurd a thug today in the *San Francisco Chronicle*'s SFGate.com.

Was there any great conflict between Hurd and the board of directors?
Well, you know, there's this huge ambivalence about Hurd, that he's not a nice guy, he's a corporate tough guy. You can ask John Doerr [a partner at Kleiner Perkins Caufield & Byers], has he ever seen Mark Hurd publicly in Silicon Valley? He's sort of the invisible man with his hands around the throat of HP, and the ambivalence comes from the fact that, yeah, nobody really likes him but, by God, he did a hell of a job. He took a dinosaur that was going nowhere and in a serious employee crisis and ... made it into the biggest electronics company ever.

What's the impact of his departure?
Short term, I think very little. HP is strongly positioned to get through this economic downturn. Long term, the question is, which way does HP go? Does it stay like this—you know, not a very fun place to work but a real competitor? Or does it go back to the old HP—one big happy family that's innovating in 20 different markets?

Is there any obvious choice to lead this company?
No, you can probably count the candidates in the entire world on both hands. My hope is, for the sake of all those tens of thousands of HP employees, that they find somebody inside who is capable of competing but also understands the culture.

Who is playing the most powerful role in terms of the future of HP?
That's a really hard call. This is a very strange company. What goes on inside the board and the executive offices of HP is kind of invisible to the outside world. It's a strangely spaceless company. In many ways, Cisco is more HP than HP is now.

What do you make of Larry Ellison's public support of Hurd?
Very interesting that Larry would even engage himself in that conversation. I mean Ellison doesn't have the purist history, and Oracle has its own reputation. In fact, when this whole thing broke, I thought to myself, you know, if this had been Oracle, it would have been laughed at. It's sort of de rigueur over there. Maybe Larry took it personally. The one thing about Ellison is he seems very loyal to his close friends.

What happens to Mark Hurd?
It's hard to imagine his image being so tarnished by this apparently minor matter that he's going to be unemployable. He may choose not to work ever again, but I would think he'd be in pretty big demand. If you can take a company like Hewlett-Packard that was just stalled in the water and turn it into a world-beater in just half a decade, that's a hell of a skill.



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Morningstar *FundInvestor*, March 2010. Morningstar evaluated the 25 largest fund groups (based on asset size) on the following measures: manager retention rates over the last 5 years; fund management tenure (how long the portfolio managers have managed their funds); fund managers' investment in the fund they manage; 3-year asset-weighted performance of their retail share classes; and Morningstar Stewardship Grades, which evaluate a fund group's culture, fees, Boards of Directors, manager incentives, and regulatory records. Data used were as of 2/28/10 except for manager retention, which is through 12/31/09.

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DisplaySearch. China will become the biggest flat-panel TV market, including plasma sets, in 2012, it forecasts.

Skyworth leads in China with 15 percent of the market, followed by domestic rivals **Hisense Electric** and **TCL**, according to AVC Consulting in Beijing. Japan's **Sharp** was the top non-Chinese vendor with 4.9 percent, followed by Korea's **Samsung Electronics** and **LG Electronics**. Sony and Panasonic each had 2.4 percent. "Sony has started to take more serious actions in China," Shima says, citing the December price cut. "We need to become sensitive about changes on products and business models for China."

A price war on the mainland could pinch big foreign TV manufacturers' profits, said Yuuki Sakurai, chief executive of Tokyo-based Fukoku Capital Management. Sony and Panasonic on July 29 said they had raised their full-year forecasts because of better-than expected sales of flat-panel TVs. Sony projects 60 percent growth worldwide and Panasonic 35 percent. Still, Sakurai says, "There's no way Sony and Panasonic can compete with Chinese producers in terms of prices. Even the South Koreans are struggling. Chinese consumers aren't very keen on top-quality products."

Samsung said last month that falling set prices may erode profitability this quarter. The company intends to keep prices above those of Chinese producers. "We will stick to a strategy that will make people aware of our premium image," says Chenny Kim, a Samsung spokeswoman. "We won't compete with local companies in pricing."

Skyworth's annual shipments in China rose 12 percent, to 7 million sets, in the fiscal year ended Mar. 31 from a year earlier, the company reported. Revenue from the business rose 55 percent. The Chinese company isn't concerned about foreign competitors, says Shen Jian, a spokesman. Brands from abroad account for only about a quarter of the TVs sold in China, according to DisplaySearch. One reason: A 40-inch, international-brand TV sold for an average of about $902 in the second quarter, or 33 percent more than Chinese brands. Ⓑ —*Mariko Yasu*

The bottom line *China is poised to become the world's biggest TV market, but foreign brands have difficulty competing there on price.*

In brief

by Cristina Lindblad



The Meadowlands mall sits unfinished and empty nearly six years after construction began

Colony Capital
A Tug-of-War Over A White Elephant
An investor group led by Colony Capital lost control of the $2 billion Meadowlands shopping mall to creditors. Designed to include an indoor ski slope and a Ferris wheel, the New Jersey mall sits unfinished after Colony took over the project from the developer, which ran out of money. Frustrated by ongoing delays, the lenders—which include Credit Suisse and Capmark—elbowed Colony and its partners out. The banks are seeking an operator that will rebrand the complex and complete it before the 2014 Super Bowl at the New Meadowlands Sports Stadium.

AIG
Another Sale, Another Loss
American International Group will book a $1.9 billion pretax loss from the sale of a majority stake in its consumer lending division to Fortress Investment Group. American General Finance, which the New York-based insurer had valued at $2.4 billion, has posted about $1.7 billion in operating losses since 2008 and racked up more than $17 billion in debt. AIG's move to divest the unit is part of a broader financial industry trend that has seen Wells Fargo and Citigroup, among others, pare back consumer loan operations.



Netflix
Putting More Money Behind On-Demand
Netflix's library of on-demand movies is about to get a lot bigger as of Sept. 1. The movie-rental service has inked a five-year, $900 million deal with Viacom's pay-television channel Epix that will give Netflix access to films from Paramount Pictures, Lionsgate, and MGM. Netflix, which built its business on sending DVDs through the mail, says 61 percent of its 15 million subscribers now use the online viewing service.

Toyota
Test Show Drivers at Fault in Many Crashes
A new report from the National Highway Traffic Safety Administration shows that Toyota drivers failed to apply the brakes in 35 of 58 crashes tied to unintended acceleration. The agency also found no evidence of electronics-related causes for the accidents in reviewing the vehicle recorders, known as black boxes. The Japanese automaker says that its tests have revealed no flaws in the electronic controls on its vehicles and that the crashes were caused by motorists who confused the accelerator with the brake pedal. Toyota is facing a shareholder lawsuit accusing the company of failing to disclose defects related to unintended acceleration. A final verdict from the NHTSA won't come until the agency finishes conducting its review.



KKR
The Buyout Firm Is Not Selling
Private equity firm KKR shelved plans to raise $500 million from a sale of its shares, citing unfavorable market conditions. The New York buyout firm founded by Henry Kravis (below) and George Roberts in 1976 transferred its listing to the New York Stock Exchange from Amsterdam last month. KKR reported a 29 percent drop in net income for the second quarter because of lower income from investments.

Skype
Will Investors Pay for Something That's Free?
Skype, the Luxembourg-based company that provides software that lets users make telephone and video calls over the Internet for free, filed to sell $100 million of shares in an initial public offering in the U.S. The company, whose investors include eBay and private equity firm Silver Lake, has lost money in four of the last five years. It had 560 million registered users as of the end of June, but only 1.4 percent are paying customers. To remedy that, Skype is developing premium services such as group video calling and pursuing corporate accounts. Separately, satellite TV service BSkyB, which is part owned by News Corp., says Skype should not be allowed to trademark its name because it's confusingly similar to the Sky brand.

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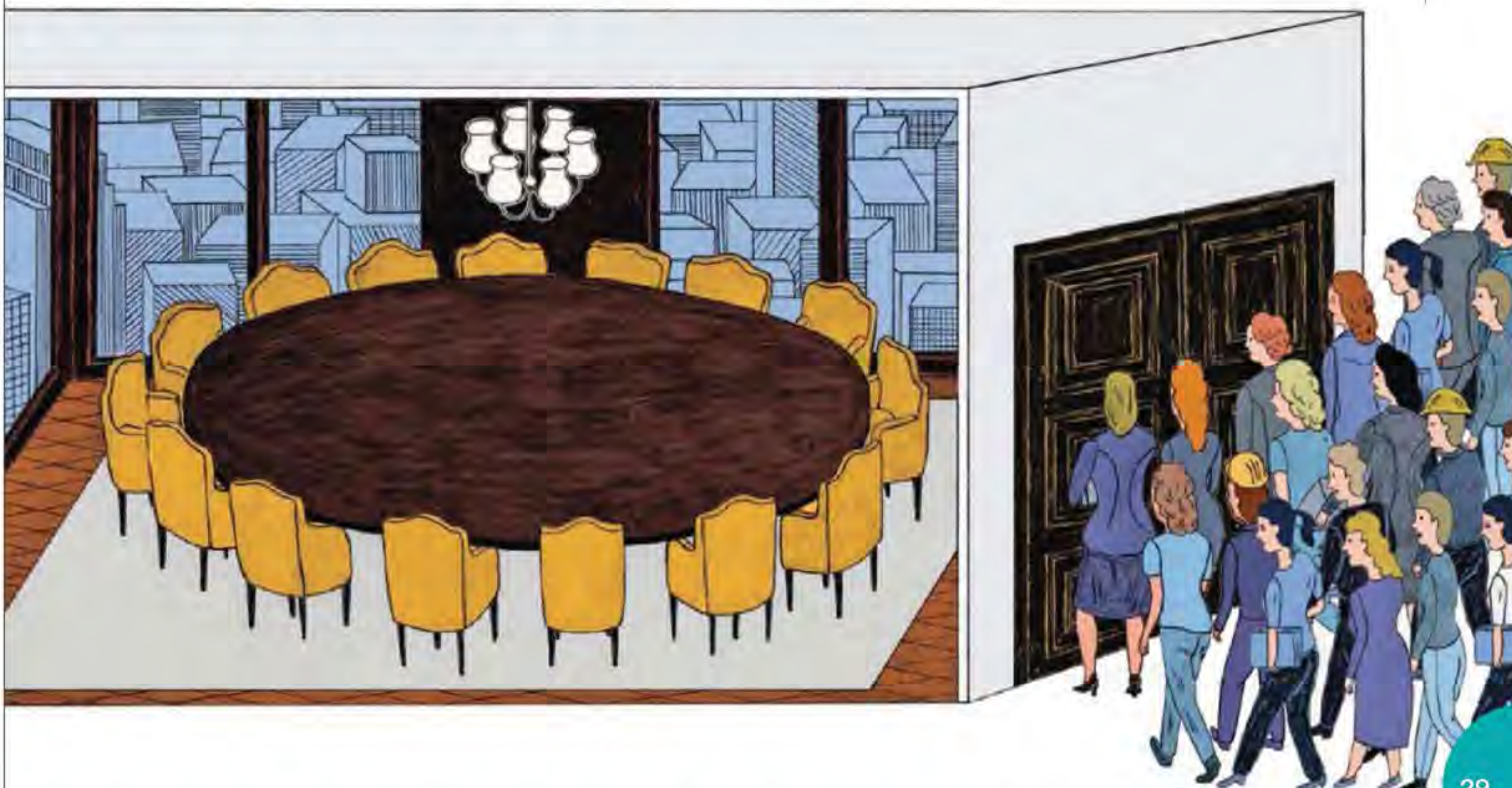


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The SEC's Plan to Pry Open Corporate Boards

▶ **The U.S. Chamber of Commerce considers a legal challenge**

▶ **"Directors and CEOs almost view the inclusion of an outsider as an invasion"**

Ever since President Barack Obama signed the new law revamping financial regulation on July 21, the focus has been on Wall Street institutions that, in Obama's words, took risks that "endangered the entire economy." One provision that received relatively little public attention will make it easier for shareholders to oust board members from companies of all sorts. It's a move that businesses far from Wall Street have been fighting for nearly a decade.

Buried on page 1,257 of the legislation is language authorizing the Securities & Exchange Commission to let investors nominate directors on corporate proxies—the ballots and other information that companies mail to shareholders. Right now only the companies' own nominees appear on the ballots. If the SEC approves the proposed rules, as shareholder groups expect it will, at the end of August, candidates selected by pension funds, labor unions, or hedge funds could appear on proxies as early as the spring of 2011.

Public pension funds, including the California Public Employees' Retirement System (CalPERS), argue that competition for board seats will make directors more accountable to investors rather than rubber stamps for management. Many company executives see the issue differently. They say special interests—hedge funds pushing to spin off underperforming units, for example, or labor unions trying to prevent layoffs—could win board seats and impose their minority view. Pension funds and labor unions could use the threat of a fight over board seats to negotiate for other concessions, **Eaton** Chief Executive Sandy Cutler wrote in January in a letter to the SEC. Patrick McGurn, special counsel at Institutional Shareholder Services, which advises large investors, says that "directors and CEOs almost view the inclusion of an outsider as an invasion. They think this person is going to be a disruptive force in the boardroom."

Company executives say special interests will win board seats and impose their minority views

ILLUSTRATION BY SOPHIA MARTINECK



The SEC has considered permitting so-called proxy access since 2003, only to back away several times because of opposition from corporations and questions over whether the change would stir up litigation. Harvey Goldschmid, a professor at Columbia Law School and a former SEC commissioner who fought to open the board nominating system, argues that the agency now has a clear directive to act, "and that ends the matter as a serious issue in the courts."

Maybe not. The U.S. Chamber of Commerce, which represents more than 3 million companies, has retained Eugene Scalia, the son of U.S. Supreme Court Justice Antonin Scalia, to review the forthcoming SEC rules for a potential legal challenge. "We will wait for the SEC to move forward and see what our options are," says Tom Quaadman, vice-president of the Chamber's Center for Capital Markets Competitiveness. Scalia, a partner at Gibson, Dunn & Crutcher in Washington, is three for three in winning lawsuits against the SEC, including cases involving what courts ultimately ruled were federal procedural violations.

Until now, the process of nominating outsiders as board candidates was expensive and time-consuming; it required mailing a ballot separate from the company's and persuading investors to vote for your slate. Corporations hate proxy fights because they lead to embarrassing questions by investors, customers, and employees about whether the board and management are competent, says Damien Park, a managing partner at Hedge Fund Solutions, a Philadelphia firm that advises companies in proxy battles. "The dissidents will highlight every inefficiency and every aspect of the business' underperformance," says Park. Competitors can take advantage of that by poaching clients and top performers.

Pension funds will likely target companies that have already faced scrutiny from investors, such as **Massey Energy**, **Occidental Petroleum**, and **Bank of America**, Park predicts. Massey, based in Richmond, Va., is under fire after an explosion at one of its coal mines killed 29 people in April. The company declined to comment. Los Angeles-based Occidental received a letter last month from the California State Teachers' Retirement System (CalSTRS) and Relational Investors, a money management firm, complaining that CEO Ray Irani's compensation was a "corporate giveaway program." A Bloomberg survey in March concluded that his $31.4 million in 2009 total compensation was the most of any CEO. CalSTRS and Relational say they plan to nominate four new Occidental directors. Company spokesman Richard Kline says Occidental's board compensation committee has been meeting with shareholders to discuss pay policies and will recommend changes within the next few months.

"The dissidents will highlight every inefficiency and every aspect of the business' underperformance"

Bank of America faced a campaign in April by CalPERS, which urged shareholders to withhold votes for six directors. A year earlier, investors stripped then-CEO Kenneth Lewis of his chairmanship after the bank failed to disclose **Merrill Lynch**'s worsening financial condition before shareholders approved its acquisition. The company declined to comment.

Getting board candidates on a proxy still won't be easy. The SEC is likely to require that shareholders hold a 3 percent stake in a company for at least two years to qualify, according to people familiar with the matter. The commission is tentatively scheduled to vote on the matter Aug. 25, the people say. SEC spokesman Jon Nester declines to comment. The 3 percent rule means groups of investors will need to team up, and even then they may fall short. The 18 biggest state pension funds hold 2.22 percent of Massey if they combine their holdings, according to Bloomberg data. The 21 largest public pension funds hold 2.97 percent of Bank of America and 2.69 percent of Occidental. Pooling **Relational**'s 0.8 percent stake in Occidental with public pension fund holdings, however, would surpass 3 percent. San Diego-based Relational marks its two-year anniversary of holding Occidental shares in the first quarter of 2011, just months before the company's annual meeting. *—Jesse Westbrook*

The bottom line *Corporations are bracing for new rules that will make it easier for dissident shareholders to nominate board members.*

OPPOSITE PAGE: JEFF FUSCO/GETTY IMAGES

Economic Development

A Governor Gambles on Atlantic City

▶ The casino district would be taken over amid stalled development

▶ "Go a block off the boardwalk and you're in Beirut, basically"

Four years ago, **Morgan Stanley** began developing the biggest casino resort in Atlantic City. Then came the credit crunch, recession, competition from nearby states, and record drops in gambling revenue. In April the bank walked away from the casino, called Revel. Now its wave-shaped glass exterior and empty interior stand as a spectacular monument to a $1.2 billion losing bet on a shorefront in decline.

Enter Chris Christie, New Jersey's new Republican governor, with an ambitious plan to help finish Revel and start turning around Atlantic City's fortunes. In late July he proposed carving a state-controlled tourism district around the casinos. It would oversee policing, development of the famous boardwalk and the casinos alongside it, and upgrades of nearby blighted streets. "If we won't take steps to deal with this now, we won't be the ones who presided over the decline of Atlantic City—we'll be the ones who presided over its death," Christie said at a July 21 news conference.

He'd better have luck on his side. Six of New Jersey's 11 operating casinos have been through bankruptcy or restructuring in the last year. Betting revenue tumbled 25 percent from 2006 to 2009. Cash-strapped gambling houses have postponed renovations, and new development has stalled. The state projects 12 percent less tax revenue from gaming this fiscal year.

On the boardwalk on Aug. 7, carnivals, saltwater taffy stands, and Atlantic City's trademark rolling chairs competed for visitors' money, along with massage parlors and weatherworn casinos. A block inland, along Monopoly-famed Pacific and Kentucky Avenues, the homeless and down-on-their-luck tenants shared a gritty landscape of neglected yards, cash-for-gold shops, and Greyhound buses dropping off day-trippers. "Go a block off the boardwalk and you're in Beirut, basically," says Robert LaFleur, an analyst at Hudson Securities who follows the gambling industry.

The state would oversee policing, develop the boardwalk, and spruce up nearby neighborhoods

Atlantic City casinos pay more than $900 million a year in state taxes and fees and about $1 billion in wages to 37,799 employees—down from the 2006 peak of 45,101. Revel was supposed to provide 5,500 jobs. The job losses are expected to accelerate when a casino opens next month in Philadelphia. "Atlantic City is surrounded on three sides by gambling, and the only reason it isn't on the fourth side is because it's an ocean," says LaFleur.

Christie's plan, most of which needs state lawmakers' approval,



Casinos are weatherworn, and owners have put off renovations

would stop the siphoning of $30 million in casino taxes to racetracks. He also hopes to save the resorts up to $25 million by overhauling two state regulatory agencies that the casinos fund and that Christie's plan says can be duplicative. The resulting $55 million would go toward marketing. Christie, who says his plan calls for little new state spending, is already borrowing from a casino development fund to upgrade roads and land around Revel, which the plan calls the largest property in the state.

Developer Kevin DeSanctis still needs to find more than $1 billion to finish Revel without ex-partner Morgan Stanley. "It's very, very important that we get Revel finished," says State Senator Jim Whelan, a former city mayor. "Otherwise, we're going to have a monument to the futility of investing in Atlantic City."

The Christie plan may be the struggling casinos' last resort. In December, **Credit Suisse** became the owner of Resorts Atlantic City, New Jersey's oldest casino, in default since 2008. Four others have changed hands. Carl Icahn acquired Tropicana Atlantic City from bankruptcy last year. Bondholders took over **Trump Entertainment Resorts**' three casinos last month. **Pinnacle Entertainment** in February ditched plans to build a $1.8 billion casino. **MGM Resorts International,** a major Las Vegas operator, is leaving Atlantic City because New Jersey gaming regulators objected to its casino partnership with Macau, China.



Christie says his plan won't require much new state spending

Mark Juliano, CEO of Trump Entertainment, which exited bankruptcy for a third time in July, isn't giving up. Defending Christie's plan to ruffled state Democrats at an Aug. 6 hearing, Juliano said he sees a future in wooing vacationers and convention-goers now that bused-in gamblers have closer alternatives: "This is the first time in 33 years that we've had a sitting governor and the legislature reach out their hands to us and say 'we're here to help.'"

—*Beth Jinks and Terrence Dopp*

The bottom line *New Jersey's Chris Christie wants to create jobs and increase tax revenue by rejuvenating Atlantic City, a tall order after years of neglect.*

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Regulation

The FCC's Crusade to Keep the Internet Free

- **Verizon and Google want to exempt wireless networks from rules**
- **Eric Schmidt: "We're trying to show some leadership"**



Imagine an Internet for which consumers paid a low price for basic service and higher prices for add-ons like 3D video. Or imagine if **Comcast**, now seeking approval to acquire **NBC Universal**, allowed its customers to download Universal movies at superfast speeds, while relegating the latest Harry Potter film from rival **Time Warner** to the slow lane.

Open-Internet advocates say such cable-television-like tiered services and virtual toll booths would violate "Net neutrality," the concept that all information coursing across the Web is equal.

Like it or not, Net neutrality may soon be ending. No one senses this more acutely than Julius Genachowski. Ever since a federal court ruling in April gutted his power to regulate Internet service providers, the Federal Communications Commission chairman has struggled to regain authority over carriers like **AT&T**, Verizon, and Comcast by proposing new rules and holding closed-door talks with industry players.

His predicament deepened on Aug. 9 when the chief executive officers of **Google** and **Verizon Communications**, Eric Schmidt and Ivan G. Seidenberg, suggested that the industry follow Net neutrality, but only up to a point. They would exempt from open-access rules wireless networks and any "managed services" delivered over wires, such as health-care monitoring, special entertainment events, and gambling. The CEOs offered as an example an opera performance streamed in 3D over the Web; Verizon would be paid a premium to send the program more quickly and at higher quality to opera buffs.



Julius Genachowski

Now, with Congress unable to agree on whether to stop companies from carving up the Internet, Genachowski is left with few choices. He wants to uphold President Barack Obama's campaign pledge to protect the open Web, even as the industry gets set to impose restrictions. The Google-Verizon plan hit like "a tidal wave" because Google had been "a very strong supporter of Net neutrality," Darrell West, vice-president of governance studies at the Brookings Institution, told Bloomberg TV. Google seems to be laying the groundwork for tiered pricing, he added. "The Internet is going to become more like other parts of the economy," he said.

Google's Schmidt defends the proposal: "We're trying to show some leadership. I have no objection to other people trying to show some leadership, too, but something's got to happen." He says it was "pleasantly surprising" that Verizon was willing to agree to clear Net-neutrality goals for its wired business. "They're serious," Schmidt says of Verizon. The managed-services exemption, he says, merely recognizes what Verizon already offers through its paid Fios broadband service for Internet, phone, and TV.

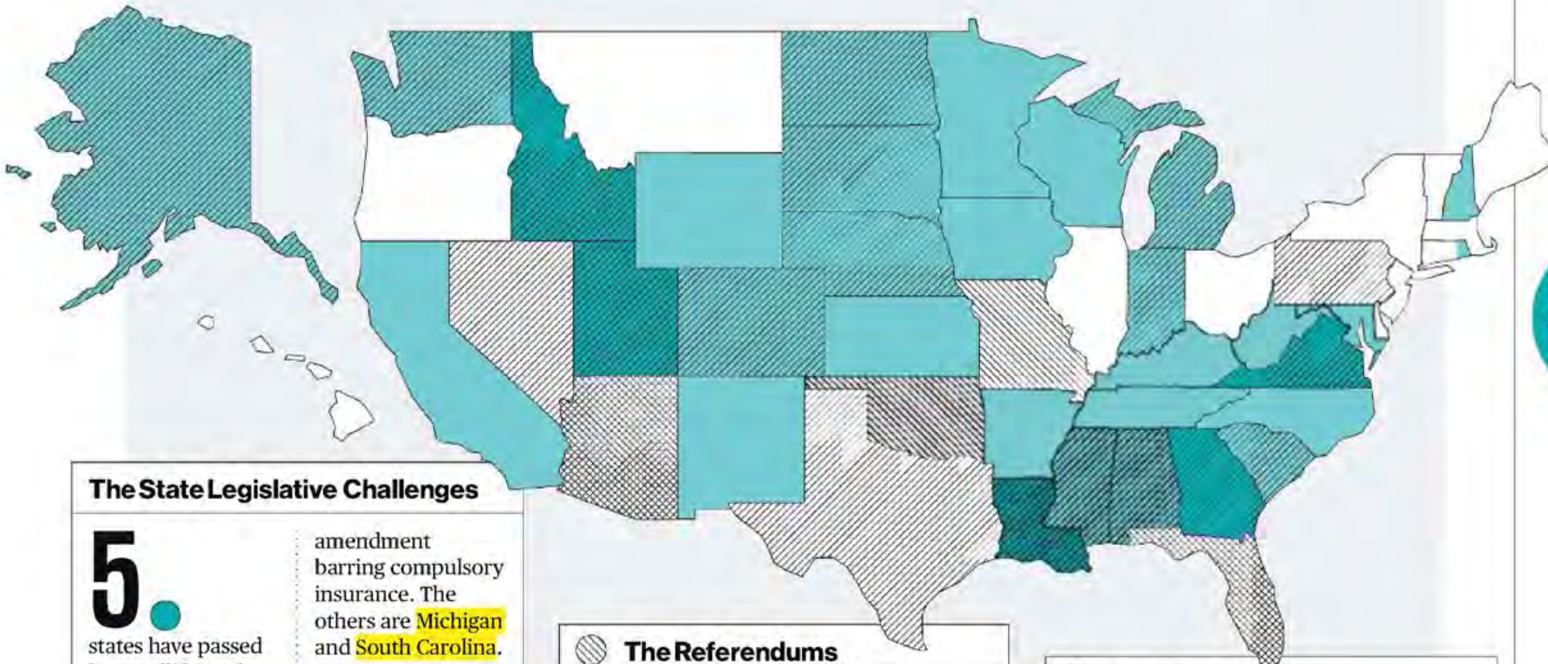
Public-interest groups heaped scorn on such ideas. Joel Kelsey, political adviser for Washington-based consumer advocacy group Free Press, says the pact "would give companies like Verizon, Comcast, and AT&T the right to decide which content will move fast and which should be slowed down." Others criticized Google for its seeming abandonment of the open Web. "Google has taken a big step back in people's eyes," says Craig Moffett, an analyst with New York-based Sanford C. Bernstein. "The company that's supposed to not be evil is suddenly being

FROM TOP: ILLUSTRATION BY GREG MABLY; MEL EVANS/AP PHOTO; JOSHUA ROBERTS/BLOOMBERG

Health Reform

The State of Protest Against Health-Care Reform

Five months after its passage, President Barack Obama's health-care overhaul remains highly controversial, especially its stipulation that citizens either buy private health insurance or pay a fine. State legislators, attorneys general, and voters in at least 40 states are challenging the so-called individual mandate, with several states already adopting laws nullifying it. Since federal law preempts state law, the state overrides may not be enforceable. Two federal lawsuits may pose a graver challenge by asserting that the law violates the U.S. Constitution's Commerce Clause, which authorizes Congress to regulate economic activity "among the several states." Below, a by-the-numbers look at the ongoing resistance. —*Barrett Sheridan*



The State Legislative Challenges

5 states have passed laws nullifying the so-called individual mandate. Virginia did so in March, even before Obama signed the act, followed by Idaho, Utah, Georgia, and Louisiana.

4 states have passed nonbinding resolutions. South Dakota's opposes the "government takeover" of health care and Idaho's calls for a constitutional amendment barring compulsory insurance. The others are Michigan and South Carolina.

26 states have rejected or failed to pass such measures because the legislative calendar ran out or the bill was held up in committee. Those states may revisit the issue. Illinois, Ohio, Pennsylvania, New Jersey, and Delaware are still considering measures.

The Referendums

2 states–Arizona and Oklahoma–will vote Nov. 2 on state constitutional amendments that would make compulsory insurance illegal.

1 referendum, in Missouri, passed in early August by 71 percent. It says the government can't penalize those lacking insurance.

1 state court, Florida's, struck down a ballot measure because it contained misleading language. The State Supreme Court will review the case this month.

The Lawsuits

19 states have joined with Florida in a lawsuit challenging the individual mandate on constitutional grounds in federal court.

1 state, Virginia, brought a separate lawsuit. Leading that challenge is Virginia's Republican Attorney General, Ken Cuccinelli; his case survived a motion to dismiss in early August.

*DATA: NATIONAL CONFERENCE OF STATE LEGISLATURES, BLOOMBERG BUSINESSWEEK

Apple's untapped iPad audience page 39 ►



characterized by the Net-neutrality crowd as the arch-villain."

The FCC tried to strike its own accord in talks with the industry that began in June. Unable to reach a consensus, Genachowski ended the discussions on Aug. 5. "Any deal that doesn't preserve the freedom and openness of the Internet for consumers and entrepreneurs will be unacceptable," he told reporters. He declined to comment on the Google-Verizon deal, spokeswoman Jen Howard said in an e-mail.

The chairman, an Obama appointee who leads a 3-2 Democratic majority, could argue that rules written for telephone service contain the authority he needs to require that Internet providers treat traffic equally. If he tries to apply phone rules to broadband, carriers and congressional Republicans would protest. Cable and phone companies fear that phone-style rules could lead to rate regulation. The companies warn that would delay investments to upgrade the Internet. If Genachowski goes that route, "he's going to be sued," says Representative Cliff Stearns of Florida, the top Republican on the House subcommittee on communications, technology, and the Internet. "We're not going to get innovation if the government steps in."

Genachowski declines to say when he might put phone-style rules to a vote by the FCC. "He needs to act swiftly," says Gigi Sohn, president of Public Knowledge, a Washington-based group that favors Net neutrality. "The more he delays, the more he gives the opposition time." *—Todd Shields and Brad Stone*

The bottom line *Broadband Internet carriers and content companies are moving quickly to impose tiered pricing on the Web.*

Quoted

"Proficient management, the cooperation of the American public, and a little bit of luck."

U.S. Commerce Secretary Gary Locke, explaining on Aug. 10 how the U.S. Census Bureau managed to finish the 2010 survey $1.6 billion under budget.



Investigations

A Crisis Commission's Unusual Book Deal



► **The FCIC hires agents, demanding an advance and royalties**

► **"Why shouldn't we let the taxpayers make some money?"**

The Financial Crisis Inquiry Commission, which Phil Angelides chairs, has signed a deal with **Hachette Book Group**'s Little, Brown to publish its findings in December. The commission's hiring of agents to sell the manuscript is unusual, and so is the contract being negotiated: It will ensure Uncle Sam gets an advance and royalties.

"Why shouldn't we let the taxpayers make some money?" asks Angelides, a Democrat and former California state treasurer whose panel was created by Congress to examine the causes of the Great Recession. "Our No. 1 goal was to work with the best publisher for the best book to be distributed widely," he adds. Any profit would be icing on the cake. Angelides wouldn't disclose details about the contract, saying it hasn't been signed yet.

Although the report will be available online for free, literary agents representing the commission received bids for the proposed book from five of the six publishing houses they pitched. Angelides says he expects sales to be brisk, particularly for the e-book version containing links to documents, audio tapes, and video clips. He has reason to be optimistic: Previous book versions of government inquiries have done well. *The 9/11 Commission Report*, published in 2004 by **W. W. Norton**—which passed on the economic crisis book—holds the record for the genre, with more than 1 million copies in print. *The Starr Report*, on the investigation of President Bill Clinton's affair with Monica Lewinsky, sold 200,000 copies.

The FCIC's publication, scheduled to hit bookstores 10 days before Christmas, is also likely to be a blockbuster, says Michael Norris, a senior analyst at Stamford (Conn.)-based Simba Information, which advises book publishers. "People want to see some kind of finished product that will answer their questions," he says. "A lot of people are still rubbing their eyes after the recession, saying, 'what was that?'" Peter Osnos, founder of PublicAffairs Books, which published *The Starr Report*, is more skeptical about the commercial possibilities for the commission's tome. "*The Starr Report*," he says, was "completely different. It was the early Internet Age, and downloading was a difficult process."

More than 50 FCIC employees are working on the final draft of the report. Matthew Cooper, a former White House correspondent for *Time* magazine, has been hired by the panel to smooth the manuscript. The 10-member bipartisan commission has subpoena authority and called witnesses from **Goldman Sachs**, **American International Group**, and **Citigroup**. It also took testimony from former Federal Reserve Chairman Alan Greenspan and former Treasury Secretary Robert Rubin.



Angelides (above left) is hoping for *9/11 Report*-size numbers

Bill Thomas, the commission's Republican vice-chairman, says the publishing deal will help the panel reach a broad audience. It may also serve another goal: giving momentum to the financial regulations overhaul President Barack Obama signed into law on July 21. "Maybe if people understand what was going on, we could actually implement this stuff," says Thomas, a former lawmaker from California who was chairman of the House Ways & Means Committee. The next question is whether George Clooney is available to play Angelides in the movie version. *—Ashley Lutz*

The bottom line *The commission investigating the financial crisis hopes to make a profit for taxpayers from publication of its final report.*

FROM TOP: SIMON DAWSON/BLOOMBERG; ANDREW HARRER/BLOOMBERG; ROLL CALL/GETTY IMAGES; ANDREW HARRER/BLOOMBERG


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Technology

Giving Indians the Phones They Want

▶ Micromax's inexpensive handsets grab local market share

▶ "Nobody else had bothered" to offer longer battery life

On a hot summer afternoon in 2007, executives at a small Indian pay phone company called **Micromax** noticed a curious sight. In a village in the eastern part of the country, they watched people line up next to a man with a car battery strapped to the back of his bicycle and hand him a few rupees to plug their cell phones in for a half hour's worth of charge. The villagers' homes didn't have electricity.

Less than a year later Micromax sold its first cell phone, the X1i. It came with an oversized battery, a small screen, and tweaked electronics that made the phone run for as long as five days, and on standby for as many as 30 days. "It was really the most obvious thing to do," says Vikas Jain, who co-founded the company in 1991 with three friends. "Here was something that provided customers a feature nobody else had bothered to give them—battery life."

Micromax, based in Gurgaon, a city near New Delhi, has introduced 37 phones in just over a year and a half, designing them in India and manufacturing with partners in China. The company has kept its phones affordable—they start at $40—and tailored to local tastes. Few Micromax handsets bother with Wi-Fi, 3G, or GPS capabilities, for example. That keeps costs down in a country where there isn't much Internet access and very little 3G coverage. One phone doubles as a Nintendo Wii-like controller, allowing users to play games on a television game console. Another, marketed heavily with Bollywood-themed TV commercials, has costume jewelry embedded in it and swivels open to reveal a full keyboard. Micromax is selling about 1 million handsets each month, or about 4 percent of the $6.3 billion Indian market; Indian phone makers as a group have grabbed 14 percent of the market, according to research by Indian trade magazine *Voice&Data*. That gain has come largely at the expense of global giant **Nokia**, whose share in India fell from 64 percent in 2008 to 52 percent by the end of last year. Jain says he plans to sell 30 million phones a year by the end of 2011—including 6 million in Africa and Latin America.

Micromax's market-share gains have come largely at the expense of global giant Nokia

Micromax's approach has attracted interest from Boston-based TA Associates, a $16 billion private equity fund that invested $45 million in the company in January for an undisclosed stake. "We did spend a lot of time with the broader universe of Indian phone makers," says Naveen Wadhera, a TA Associates Advisory director based in Mumbai who worked on the deal. "But what we specifically wanted was someone with a real focus on product and a real effort at innovating. The others have a bit of a me-too sort of strategy."

Nokia's India Vice-President and Managing Director D. Shivakumar is dismissive of the Indian phone-making competition. It doesn't take much, he says, to hop a flight to Shenzhen, China, and put your own sticker on a phone. "You know, Nokia's one of those companies that nobody pays attention to when it does well," he says in a conference room at Nokia's Gurgaon offices. "It's like when Roger Federer wins at Wimbledon, nobody talks about it. But lose once..."

One floor away, Nokia is hosting a group of Indian tech blog-



Micromax fit an oversized battery into its first phone, the X1i, giving it days of talk time and nearly a month of stand-by. That's useful in a country where less than 25 percent of households have electricity.



ILLUSTRATIONS BY KATE FRANCIS; PHONES: SANJAY JHA/ZUMA PRESS

gers who were writing about the Finnish handset maker's latest touchscreen model with Carl Zeiss lenses. Elsewhere in the country anthropologists working for Nokia track the results of an experiment where the company gave every person in four neighboring villages a free phone with access to local weather, crop, and other information. Each Nokia phone spends nearly 18 months in development, says Shivakumar, with models tested for water exposure, bent by robots, and shaken around in boxes full of sharp objects.

That time-consuming attention to detail, and the fact that Nokia makes phones for sale across the world rather than tailored to Indian tastes, may help Micromax continue to steal customers, says Naveen Mishra, lead telecommunications analyst at research firm IDC India. Micromax takes no more than four months to go from idea to execution, says Jain. Its $75 Qwerty-keyboard phone is already India's best-selling full keyboard handset, according to IDC, beating Research In Motion's BlackBerry, whose cheapest unit goes for $320. Nokia plans to launch a similar phone, the C3, that will be cheaper than Micromax's, as part of a midrange series of phones.

One of Micromax's greatest successes has been a feature that allows phones to handle multiple accounts. In India, mobile plans are mostly prepaid and, thanks to an ongoing price war, among the cheapest in the world and getting cheaper. Consumers constantly shop for deals and often wind up with three or more accounts—nearly 100 million Indians have multiple cell numbers, estimates investment bank Macquarie. To switch among numbers, cellphone owners used to have to swap SIM cards, the little plastic-and-metal identifier chips that slide into handsets. Micromax has designed almost all of its phones to hold two SIMs, and handsets that can have up to two numbers are part of its signature. One of its phones comes with a motion sensor so that all a user has to do to switch SIMs is briefly flip the phone upside down.

Nokia will introduce its own dual-SIM phone soon, promises Shivakumar, more than a year after Micromax debuted its first model. "And because it's a Nokia phone," he says, "it's going to be the best in the category."

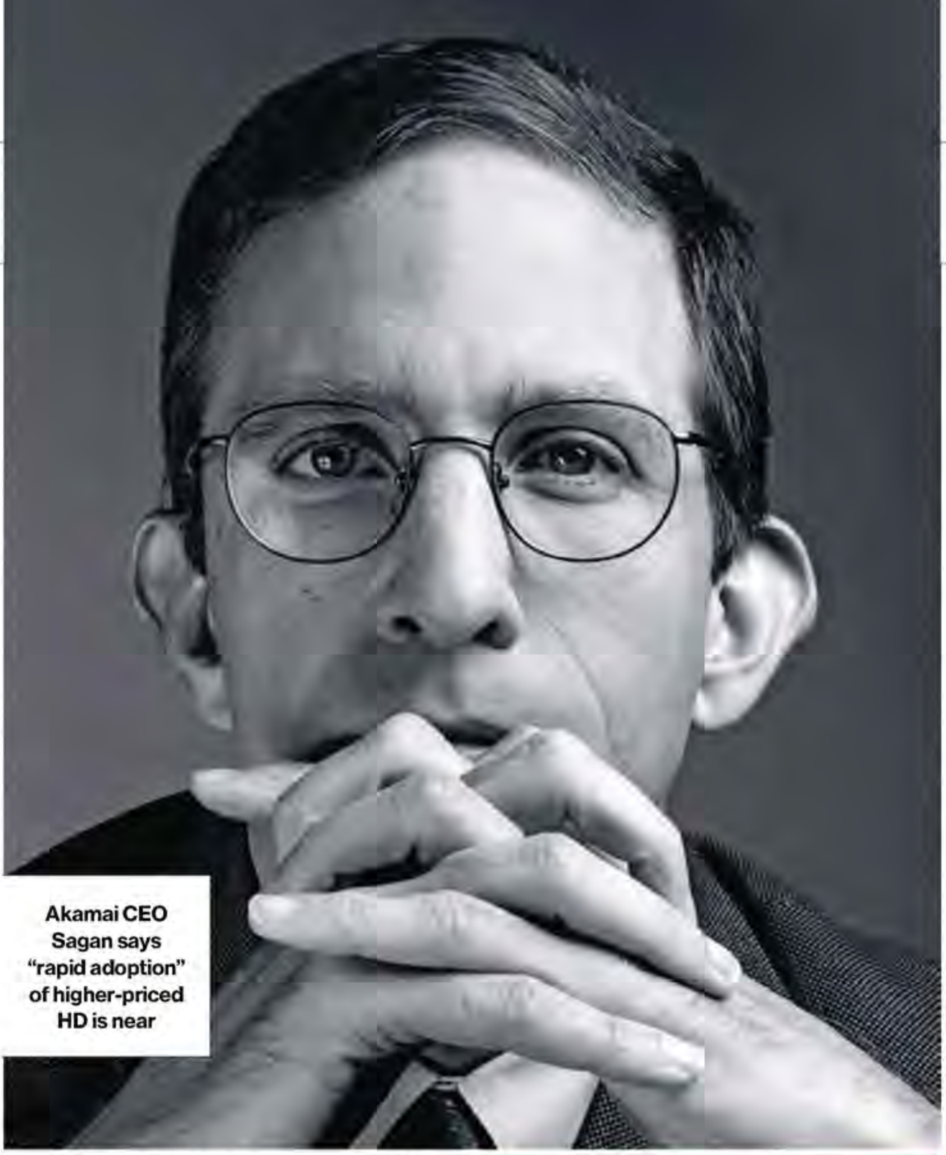
Prakash Murarka, a 21-year-old college student, says he has four phone numbers and one handset. He holds up his SIMs as if they were a miniature deck of cards, and slips two into a Micromax handset. "The first one is to call my parents," he says. Then he spins his phone like a gunslinger, kicking in the second SIM. "And this one is to call my girlfriend." —*Mehul Srivastava*

The bottom line *Micromax is gaining market share in India by making cheap phones with long battery life and offering other features local consumers want.*

Quoted

"The HP board just made the worst personnel decision since the idiots on the Apple board fired Steve Jobs many years ago."
—Oracle's Larry Ellison on the departure of Hewlett-Packard Chief Executive Officer Mark Hurd





Akamai CEO Sagan says "rapid adoption" of higher-priced HD is near

Web Video

As Streaming Prices Drop, a Bet on High-Def

- **Investors in fast-growing Akamai fear increasing competition**
- **HD online "is almost a requirement at this point in the sports field"**

Open a video on ESPN.com or Hulu and there's a good chance Akamai Technologies' software and servers are working behind the scenes. The company is the leader in the booming business of helping websites stream content. Researcher comScore estimates that people watched 35.7 billion online videos in June in the U.S., up from 19.5 billion a year earlier. Akamai and its competitors will have sales of about $600 million from online video this year, up 20 percent from 2009, estimates research firm Frost & Sullivan.

Akamai was the best-performing stock in the S&P 500 this year up to July 28, climbing 74 percent.

That's when investors did a U-turn, sending Akamai down by 13 percent over

How Chicago lost serious coin on meters page 44 ►



two days. The reason: Akamai said its second-quarter margin before interest, taxes, depreciation, and amortization had dropped 2 percentage points from a year earlier, to 46 percent, and could thin even more next quarter. (Akamai's stock has bounced back 11 percent since July 29, and is No. 2 on the S&P year to date.)

The narrower margin came from increased spending on equipment and new hires, and falling prices. Website owners typically pay Akamai based on the volume of digital content, measured in gigabytes, called up by users. The average price websites pay to stream video fell 40 percent to 45 percent in 2009 and is on track to decline another 25 percent this year, estimates Frost & Sullivan. The causes of the drop are Moore's Law–the number of transistors on a chip doubles every 18 months, making computers cheaper and more powerful over time–and competition. Once the only significant player in delivering online video, Akamai has faced increased pressure from newer entrants such as Level 3 Communications and Limelight Networks, says Frost & Sullivan analyst Dan Rayburn. Delivering online video "is becoming much more of a commodity business," says Jim Louderback, CEO of video site Revision3, which uses Akamai competitor BitGravity to stream shows it produces over the Web.

Paul Sagan, Akamai's chief executive officer, says price wars don't mean commoditization. "I don't agree there is a fundamentally new pricing dynamic," he says. "Unit prices fall every year as volumes grow. If this were a mature, saturated business that would be a concern. We're at about 1 percent of the opportunity that has been tapped."

The most promising area of growth, Sagan says, may be high-definition video, which has just started arriving on PCs. About 7 percent of all videos watched on the Web are in high-definition, up from 3.5 percent last year, according to researcher IDC, and by 2014 one-third of all online video will be HD. Frost & Sullivan says Akamai charges a customer like Netflix about 5¢ for an HD movie, compared with about 3¢ for standard definition. "We're right on the cusp of rapid adoption" of HD, Sagan says.

During this year's World Cup, Akamai delivered live feeds of soccer matches to the websites of two dozen broadcasters worldwide, including ESPN and the BBC. Sagan says most viewers opted for high def. HD "is almost a requirement at this point in the sports field," says Eric Black, director of digital operations for NBC Sports.

"The majority of major broadcasters used us to deliver the World Cup in HD," says Sagan. "To me, that's not the definition of a commodity at all."
—Douglas MacMillan

The bottom line *While demand for streaming video spikes, Akamai faces challenges as competition forces down prices. HD video may help its margins.*

Tablets

iPad Leads Apple to a New Market: The Elderly

- **Its ease of use appeals to seniors with little computer experience**
- **They "have the trifecta of time, money, and curiosity"**

Hikosaburo Yasuda of Nakano, Japan, plans to buy an iPad to keep up with junior members in his computer club. "It's important to always try new things, otherwise you get left behind," he says.

Yasuda is 95 years old. He and his peers, looking for easier ways to browse the Web and send e-mail, represent a potentially lucrative market for **Apple**'s iPad. The company has sold 3.27 million iPads since its launch in April, but doesn't break down sales figures by customer age, making it impossible to know with certainty how many seniors are buying them. Anecdotal evidence suggests it's a hit with the elderly. Marti Weston of Arlington, Va., bought her father one for his 87th birthday in May. "This 'book-sized' pad has become my news and entertainment source," her father, the Reverend Elmo Pascale, raved in a comment on Weston's blog.

The iPad's intuitive interface makes it appealing to senior citizens around the world, says Takahiro Miura, a researcher at the University of Tokyo: "The iPad is a good tool for the elderly because it's very forgiving of mistakes." Miura's team uses computers to help train senior citizens to rejoin the workforce. "Unlike the PC, it doesn't require prior knowledge," he says.

James Cordwell, a technology analyst at Atlantic Equities in London, says the iPad's popularity with the elderly is helping Apple reach beyond its traditional base of younger customers. "Demographically, the world, especially in developed markets, is getting older, and it's probably where Apple is least penetrated," Cordwell says. Elderly users are "a key source of growth for them in the future." These buyers could also give Apple an advantage over **Research In Motion**, **Hewlett-Packard**, **LG Electronics**,

The iPad is pushing Apple beyond its traditional customer base



CLOCKWISE FROM TOP RIGHT: ANDREW LEYERLE/GETTY IMAGES; SIMON DAWSON/ BLOOMBERG; JEFF CHIU/AP PHOTO; BEN BAKER/REDUX

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Google, and other companies expected to roll out tablets.

The elderly in Japan, who make up an estimated 22 percent of the population, may prove particularly receptive to the iPad. They spend more than any other group in the country except for those under 30, according to a report by Japan's Cabinet Office. Motoo Kitamura, 78, a former gas salesman, bought an iPad to help him communicate with his 2-year-old grandson and stave off dementia. "Trying new things like that is a good mental exercise," he says.

Toshihiro Okada, a 79-year-old retired architect, runs Yasuda's computer club, where he's called The Saint because he often bikes to members' homes to troubleshoot technical problems. "Seniors these days have the trifecta of time, money, and curiosity," says Okada. "The iPad is never out of my hands."

— Pavel Alpeyev and Yoshinori Eki, with Anna Mukai and Arik Hesseldahl

The bottom line *Apple is making inroads with a new group of consumers, the elderly, thanks in part to the intuitive design of its iPad.*

30

MILLION

Number of Wiis that Nintendo says it has sold in the U.S. as of August, 45 months after launch, making it the fastest-selling game console in history.

DATA: NINTENDO

E-Commerce

Penny Auction Sites Take a Paddling



- **Pay-to-bid sites, all the rage last year, are losing traffic**
- **"The swing was massive, and the business became unsustainable"**

Over the last few years, Silicon Valley has become enamored of a new kind of e-commerce: penny auctions. On websites like Swoopo, BigDeal.com, and Beezid, flat-screen televisions, laptops, iPads, and other products sell for a fraction of their retail price. There's a catch: Bidders pay a few pennies each time they bid, and each bid delays the ending time of an auction by a few seconds.

The first player in penny auctions, Munich-based **Entertainment Shopping**, racked up torrid profits after it was founded in 2005, according to investors and entrepreneurs who studied the private company's performance. Copycat operations popped up around the world. Now traffic on penny auction sites is declining, and companies are searching for a business model that works.

Entertainment Shopping, called Swoopo.com in the U.S. and parts of Europe, has more than 150 rivals, with names like BidCactus and PriceSaver. A few are backed by venture capital. Atomico, the investment firm of Skype founders Janus Friis and Niklas Zennström, invested $6 million last month in a London-based startup called **Madbids.com. Google** Chief Executive Officer Eric Schmidt's venture firm, **Tomorrow Ventures**, also recently put an undisclosed amount into oohilove.com, a penny auction site specializing in women's luxury items, such as handbags.

The audience for this combina-

tion of shopping and gambling has not grown with the field, and the sites have driven up the price of advertising keywords on Google such as "cheap iPad." Buying key words on search sites is the primary way the auction sites advertise products for sale. Swoopo's U.S. traffic declined 62 percent between January and July, according to Web tracking firm Compete. Beezid is down 50 percent and BidCactus is down 37 percent during the same period. "There was no other business out there generating these types of profits, and that drove competition," says Paul Tsyrlin, a co-founder of an Atlanta-based penny auction site called Wavee. "A lot of folks were unprepared for how difficult a business this has become." Wavee's traffic has declined steadily since the start of the year, partly because it stopped advertising.

Some customers decided that bidding on penny auction sites didn't make good financial sense. Bidders might spend a total of $1,500 so that one of them could win a $1,000 laptop for $50. The sites found that many customers left unhappy after paying for bids but losing auctions. Last year many of the auction sites, including BidCactus, Swoopo, Bigdeal, and Oklahoma City-based Quibids, announced that losing bidders could "bid to buy," or apply the amount they spent bidding on an item to buying it at the retail price. That destroyed the companies' profit margins. "These companies went from minting money to making no money off the people who bid to buy, and then losing money on the person who won," says Tsyrlin. "The swing was massive, and the business became unsustainable."

Some of the larger sites are rolling back the rule changes. BigDeal, based in San Francisco, no longer offers a "buy it now" feature for popular items like iPads, citing inventory constraints. Swoopo now lets shoppers apply money they spent on losing bids toward only 25 percent of the price of outright purchases; before spring, users could apply the money toward 100 percent. Swoopo's chief executive, Frank Han, declined to comment. B
—*Brad Stone*

The bottom line *Startups and their investors rushed to get into the penny auction game. Now competition and unhappy customers are hurting profits.*

ILLUSTRATION BY GAVIN McCARTHY; JASON GROW

Innovator

George Church



The synthetic biologist says he can create living things faster than nature can, essentially speeding up evolution. And he says he can do it cheaply.

It takes millions of years for a new species to evolve. George Church says he can do it in days. The towering, bearded 56-year-old Harvard Medical School professor is a pioneer in the fast-growing field of synthetic biology, in which scientists manipulate DNA to create organisms that don't exist in nature. Soon, researchers may be able to develop waterproof cotton or bananas that stay ripe for months, according to scientists in Church's lab.

Most synthetic biologists laboriously tweak a genome one small piece at a time, then look at how the new cell behaves. Church, along with researchers Farren Isaacs and Harris Wang, has invented a technology, known as multiplex automated genetic engineering, or MAGE, which makes the process much faster. The table-top machine they created allows researchers to make 50 different genome alterations at nearly the same time. Combined with the mutations that occur as those cells go on and reproduce, MAGE can create billions of cellular mutations in a matter of days, essentially speeding up evolution. Scientists can then identify the most useful mutations.

Church's team was able to genetically alter a common bacterium, E. coli, to produce lycopene, an antioxidant in tomatoes that may help fight cancer. Some of the altered bacteria produced five times the normal quantity of lycopene. The team spent just three days and $1,000 in supplies to produce the bacteria. Using old techniques, it would have taken months, says Church.

This isn't the first time Church has played scientific revolutionary. He helped launch the government-funded Human Genome Project, which successfully decoded the entire genetic blueprint in 2000, after a spirited race against a private effort led by geneticist Craig Venter. Both teams shared credit for the accomplishment. Church and Venter are once again in a race: In May, Venter and his team successfully inserted a fully customized strand of DNA into a living cell, creating what they call the "first synthetic genome." Church says MAGE can achieve similar results faster and cheaper. His lab's device will go on sale later this year for about $90,000, and at least a dozen companies, including chemical giant DuPont and biotech startup Amyris, are considering purchasing it, says Wang.

Playing around with insects and pond muck as an 8-year-old launched Church into biology and was one of his "earliest thrills," he says. Computers grabbed his attention as well, and by ninth grade he was programming simple video games. At Duke University, he figured out how to combine his two passions while working in a lab that helped construct the first 3D representation of tRNA, a small genetic molecule. Says Church: "I became obsessed with automating the rest of biology—in particular reading and writing DNA." B —*Arielle Fridson*

Education ▸ PhD in biochemistry and molecular biology from Harvard

Invention ▸ A table-top machine that creates dozens of DNA variations

Earliest thrill ▸ Witnessing the transformation of a water bug into a dragonfly



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Due Process, Dubai Style

▶ **Hundreds who rode the boom have been detained**

▶ **The legal system "seems to hold you in ... suspension"**

Not long ago, British businessman Ryan Cornelius was living the high life, doing real estate deals out of Bahrain. He took his family on safari in Kenya and on big-game fishing trips on his yacht. Today, Cornelius resides in a prison cell in Dubai, accused of loan fraud. He's been locked up for more than two years without a court reaching a verdict.

Cornelius and other executives have been targeted by Dubai's government in an anti-corruption sweep provoked by the emirate's financial and real estate collapse in 2008. The emirate's image as the Singapore of the Middle East, a cosmopolitan hub for finance and tourism, is being tested as it tries to clamp down on the excesses that government officials say accompanied an explosion of foreign investment and immigration. Many of those accused of wrongdoing protest that they are innocent victims of abusive prosecutions. They claim they are being detained without the sort of due process provided by Western courts.

"The whole legal system seems to hold you in a state of constant suspension," Cornelius, 56, says from a pay telephone at Dubai's Central Prison. "We just don't seem to move forward."

He and six co-defendants have been charged with defrauding Dubai Islamic Bank by improperly diverting the proceeds of a $501 million loan. The case is one of the biggest frauds ever alleged by authorities in Dubai, the second-largest of the seven emirates that make up the United Arab Emirates. Cornelius denies any wrongdoing.



Cornelius, accused of fraud, has been locked up for two years

In all, Dubai authorities may have jailed several hundred executives, according to a London-based advocacy group called Detained in Dubai. The crackdown has focused on alleged fraud involving state-run real estate concerns and other companies. Dubai's judicial system, which is based on Islamic law, or sharia, has highly punitive aspects that private lawyers in the emirate say are weighted against defendants. The U.S. State Dept. issued a report in March that said the U.A.E. lacks an independent judiciary, suggesting that its courts are subject to political influence.

About 40 percent of the 1,200 people in Dubai Central Prison have been convicted of defaulting on bank loans, Human Rights Watch said in a report in January. The emirate's financial laws impose punishment of as much as four years behind bars for a single bounced check. Even after completing their sentences, some inmates remain incarcerated until their debts are paid off, something unheard of in modern times in the U.S. or the U.K., New York-based Human Rights Watch says. "Our current criminal laws are not fit to deal with sophisticated financial crimes," says Habib Al Mulla, the former chairman of the Dubai Financial Services Authority, an industry regulator. Al Mulla, an attorney, represents one of Cornelius' co-defendants. New laws are needed "to protect bona fide businessmen from the abuse that some do face under the current legal system," he adds. "This abuse has a damaging effect on the economy and the country."

After it launched its crackdown two years ago, the government said it had uncovered kickbacks and other corruption at a variety of state-controlled companies. During its boom years, the emirate and its companies amassed debts of more than $100 billion for projects such as the world's tallest tower and a group of artificial, palm-tree-shaped islands built by property developer **Nakheel**. The Dubai government and prosecutor's office didn't respond to repeated requests for comment.

Some U.A.E. citizens arrested in the anti-fraud offensive have been freed after repaying what the government said they owed. The former governor of the Dubai International Financial Center, Omar bin Sulaiman, was released from prison in May, following two months of detention after he returned to the Treasury of Dubai about $14 million in bonuses he allegedly awarded himself. Hashim Al Dabal, the ex-chairman of state-owned Dubai Properties,

FROM TOP: C.BIBBY/FINANCIAL TIMES-REA/REDUX; BLOOMBERG



The site of the Plantation, now controlled by Dubai Islamic Bank

got out in June after eight months in detention by repaying $35 million he allegedly embezzled from the real estate company.

Others remain in prison as their cases inch along. Zack Shahin, a 45-year-old former **PepsiCo** executive from Ohio who went to work for the property company **Deyaar Development**, has been incarcerated since March 2008, charged, along with others, with embezzling $27 million. In a statement earlier this year, Shahin's lawyers said that for days on end, their client had been denied food, held in solitary confinement and darkness, blindfolded, and threatened with torture. The attorneys said that Shahin is an innocent "target of a politically charged investigation." Dubai's attorney general, Essam Essa al-Humaidan, previously has rejected allegations that Shahin or anyone else has been abused by the emirate's prosecutors or legal system. The American government has repeatedly raised Shahin's situation with U.A.E. authorities, according to the U.S. State Dept.

Outside investors are looking carefully at how Dubai is applying its financial laws to foreign executives, says John Sfakianakis, chief economist at Riyadh-based Banque Saudi Fransi. "It is good they are taking some individuals to court, pursuing them," Sfakianakis says, "but the way they are pursuing them could [negatively] impact Dubai."

Cornelius and his co-defendants are accused of diverting hundreds of millions of dollars from a trade-financing loan for projects such as the Plantation, a planned 20 million-square-foot development in the desert that was to include five polo pitches with stables for 800 horses, a luxury hotel, and houses. The prosecution charges that Cornelius and others forged documents and used the loans for "fake deals," according to a court document.

"I absolutely deny all the allegations against me," Cornelius says from behind bars. He said that the money in question was mostly used for property development in Bahrain and the relocation of an oil refinery from Canada to Pakistan, as well as for the Plantation project in Dubai. He and his associates reached a debt repayment agreement in 2007 with Dubai Islamic Bank, he added. The bank took control of the Plantation after Cornelius and his colleagues were arrested. If the bank had sold the property at that time, the proceeds would have more than covered all of the debt, Cornelius says.

He now lives in a dormitory with about 100 other men. The conditions are an improvement over those in Rashidiya prison, where he says that he and more than 250 prisoners shared six rooms meant for 48, and there were only two working toilets. Cornelius says he was held in solitary confinement for the first six weeks after his arrest in May 2008. The yacht and a beach hotel he owned in Kenya have been sold.

Cornelius says he has been in court about 30 times and has been denied bail a dozen times. The proceedings are in Arabic, and he finds them difficult to follow, even with an interpreter. Originally facing a maximum sentence of three years, Cornelius and his fellow defendants could get up to 20 years under a new anti-corruption law announced after his arrest. "This has been a devastating experience," he says.

Radha Stirling, a lawyer who started Detained in Dubai, says there has been a marked increase in detentions for financial crimes since last year. The majority of cases she is dealing with are related to bounced checks or other debts. "I think a lot of people relocated to Dubai as an extension of Europe, like France, Spain, or even the U.S.," Stirling says. "It was seen as very developed with a good legal system." Now, she predicts, "the average person who was once going there to seek employment or invest will shy away from Dubai."
—Henry Meyer

The bottom line *Dubai's anti-fraud crackdown has resulted in the imprisonment of hundreds of foreign executives and financial workers.*

Municipal Finance

Windfall for Investors, A Loss for the Windy City



- Chicago gave up billions on a parking meter deal, critics say
- "The next couple of generations will pay the price"

Here's a cautionary tale for city officials considering whether to sell off government properties to raise cash in these lean times. Chicago drivers will pay a Morgan Stanley-led partnership at least $11.6 billion to park at city meters over the next 75 years–10 times what Mayor Richard Daley received when he leased the system for a one-time sum of $1.15 billion in 2008. The investors–**Morgan Stanley, Abu Dhabi Investment Authority**, and **Allianz Capital**

FROM LEFT: MATILDE GATTONI/BLOOMBERG; ILLUSTRATION BY TOPOS GRAPHICS; TOM SCHIERLITZ; ANDREW HARRER/BLOOMBERG

The not-so-humble Honey Nut Cheerio page 62 ►



Partners–may earn a profit of $9.58 billion before interest, taxes, and depreciation, according to documents for the group's $500 million private note sale.

Helped along by some aggressive parking-fee hikes, the group is making a profit (before earnings, taxes, and depreciation) equivalent to 80¢ per dollar of projected revenue. Standard Parking, a publicly traded company that runs the parking concession at the city's O'Hare and Midway airports, earned only 4.84¢ per dollar of revenue last year.

Chicago's deal illustrates the extent to which Wall Street banks are profiting from helping states and cities close budget deficits by leasing taxpayer-owned properties. The city gave up billions of dollars in revenue when it sold the Morgan Stanley-led group, called Chicago Parking Meters, the right to run its 36,000 meters, says Alderman Scott Waguespack. Unless the Morgan Stanley partnership defaults on its obligations, the contract runs until 2084. "The next couple of generations will pay the price," said Waguespack, 40, a Democrat from the 32nd Ward and one of only five aldermen among 50 who voted against the lease. When Daley, also a Democrat, announced the parking deal on Dec. 2, 2008, two days before the council's vote, Waguespack's staff estimated the city would give up $4 billion to $5 billion of future revenue in exchange for the up-front sum. Now, according to the partners' debt-sale memorandum, the lost revenue over the life of the 75-year lease is more likely to be $11.6 billion.

"These deals are rarely done under the bright light of public scrutiny," says Richard G. Little, director of the Keston Institute for Public Finance & Infrastructure Policy at the University of Southern California in Los Angeles. "Often the facts come out long after the deal is done."

The private note sale, scheduled for last month to help cover costs of acquiring the contract, has been delayed because of market conditions, says Alyson Barnes, a Morgan Stanley spokeswoman in New York. She wouldn't comment on profit or revenue projections. Allianz Capital and the Abu Dhabi Investment Authority declined to comment.

"The concession agreement was absolutely the best deal for Chicagoans," Gene Saffold, Chicago's chief financial officer, said in an e-mail. The profit estimates in the bond-offering documents are "fairly optimistic," but in line with our projections of the system's current value at between $700 million and $1.1 billion, he said. "The net present value of $11.6 billion in revenue over the life of the 75-year agreement is consistent with $1.15 billion" the city got, he said.

Morgan Stanley's partnership has raised parking rates twice since the lease began. Fees at some central business district meters rose to $4.25 an hour from $3 since January 2009 and are scheduled to increase to $6.25 in 2013. In midtown Manhattan, hourly rates run as high as $2.50 at meters. Chicago Parking Meters also plans to increase revenue by fitting more cars into spaces by eliminating marking lines, raising the number of metered slots and increasing the hours requiring fees, according to the debt-sale filing.

The deal was "dubious," the city's Office of the Inspector General said last year, because it didn't factor in how much the system would be worth over 75 years. The inspector general's office put the contract's value at $2.13 billion.

William Blair & Co., an adviser for Chicago on the parking lease, told the inspector general last summer that the city estimated revenue over the life of the contract and applied a discount rate to determine a bottom-line price. It said the $1.15 billion figure exceeded the minimum by more than 15 percent. Blair said the agreement shields Chicago from economic uncertainties, such as reduced parking revenue if drivers switch to mass transit. Thomas Lanctot, a William Blair principal who handled the contract, didn't respond to phone and e-mail messages seeking additional comments.

$11.6 BILLION

Amount Chicago drivers may pay in parking fees to investors over 75 years

Earlier this month, as Laura Hunter, a political consultant, paid to park her car at a kiosk on South Wacker Drive, she said: "The city did have a budget hole to fill, but parking-meter fees aren't normally predicated on balancing a budget."
—*Darrell Preston*

The bottom line *Chicago may have forgone billions in revenues with a 2008 sale of its parking meter business to private investors.*

Corporate Finance

BP Needs to Cap Its Financial Gusher, Too



▶ **The oil spill may raise its debt costs, so it's selling assets quickly**

▶ **"I would guess that BP is ... on the watch list at many banks"**

BP has managed to cap its runaway well in the Gulf of Mexico, yet it still faces cleanup costs, damages, and fines that could climb up to $50 billion, according to Oppenheimer analyst Fadel Gheit. Now there's a new challenge: That kind of financial hit, on top of a $30 billion-plus overall debt load, could drive up the British oil company's borrowing and oil trading costs, and squeeze profitability in the quarters ahead. 45

BP Chairman Carl-Henric Svanberg (above) told analysts on a July 27 earnings call that the company's "liquidity is strong," even as the British oil company posted a $17.15 billion second-quarter loss from a $32.2 billion pretax charge to cover spill-related cleanup costs and potential fines. In its earnings release, BP also outlined possible financial risks that "may put pressure on the group's liquidity," though BP Chief Financial Officer Byron Grote described such risks as "minuscule" in a call with analysts.

Energy traders may demand more collateral from BP because of "ongoing contingencies" and recent or further downgrades in its credit rating, the company said. BP also disclosed that it might pay more for its $17 billion in bank credit lines or be "unable to make a drawdown" if lenders decide the company will struggle to repay the loans because of pending or threatened legal or administrative proceedings.

"I would guess that BP is definitely on the watch list at many



Hong Kong home prices are up 42 percent since the start of 2009

banks and counterparties," said analyst Charles Ortel, a managing director at investment research firm Newport Value Partners, in an e-mail. "They will likely grow to fear the many uncertainties created by the Obama Administration's approach and penalize BP, which would accentuate BP's potential funding crisis."

In its earnings release, BP said it took a pass on "some of the financing options that were available on more acceptable terms in the past." BP spokesman Andrew Gowers said in a phone interview that "there were difficult moments in the credit markets, but the effects of the Gulf crisis on trading were marginal." In gas marketing and trading, BP took a second-quarter loss that cost the company more than $500 million, though the reason wasn't disclosed in the results announcement. Gowers said the loss in gas marketing and trading so far was largely a result of "market conditions" and unrelated to the spill.

To strengthen its finances, BP added $12 billion worth of bank credit lines in the second quarter and cut its dividend. It also launched $30 billion in asset sales to raise cash, seeking some payments up front. **Apache** agreed to pay $5 billion in cash by July 30, out of the $7 billion it will part with for oil and gas fields in Texas, New Mexico, western Canada, and Egypt. Colombia's **Ecopetrol** and Canada's **Talisman Energy** will pay $1.9 billion, mostly up front, for BP's Colombian oil and gas and production businesses.

With proceeds from the sales, BP said it may halve its $23.2 billion in net debt (overall debt less cash and other assets) during the next 18 months. "It's likely that the rush to sell assets stems partially from the desire to reduce debt that will be more expensive to sustain or refinance and to accumulate cash to deal with damage claims, thereby extending BP's runway before it may have to contend with an inability to pay claims timely," says New York restructuring lawyer Martin Bienenstock of Dewey & LeBoeuf. "You can bet all their pre-spill lenders are working overtime making lists of legal outs of their duties to fund new draw requests."
—Linda Sandler

The bottom line *BP may have to pay more to borrow and finance oil trading operations from its oil spill-related cleanup costs and fines.*

Quoted

"The stock market's telling us there's some good things happening. And I don't think it's only what they think Bernanke is going to say. There is now a very broad consensus that this ... is not going to develop into a double-dip."
—Jeremy J. Siegel, professor of finance at the Wharton School of the University of Pennsylvania



Real Estate

Can Hong Kong Pull Off A Soft Landing?

- The government is selling land to bring down soaring home prices
- "A lot of people are finding prices very difficult to comprehend"

Beijing's financial authorities have tried to cool off property markets in Shenzhen, Shanghai, and other mainland cities by raising interest rates and urging banks to be far more discerning about real estate loans. In Hong Kong, where property prices are also on a tear, the government is trying a different approach: accelerating sales from its vast land holdings to expand supply and rein in home prices.

Hong Kong home prices are up 42 percent since the start of 2009, due in part to interest rates hovering at a two-decade low and a local economy expected to grow 5.7 percent this year. Prices may rise 10 percent in the second half of this year, according to a forecast by property consultant Jones Lang LaSalle. The Hang Seng Property Index, which tracks the stock price of seven of the city's biggest developers, has risen 11 percent in the past six months, compared with a 4.9 percent gain in the benchmark Hang Seng Index. "Property prices are at a fairly

FROM TOP: JEROME FAVRE/BLOOMBERG; DENIS DOYLE/BLOOMBERG

Mergers

The Credit Boom's Best and Worst Deals

It seems like a dim memory now. Yet it's worth recalling that companies around the world did $10 trillion worth of M&A deals from 2005 to 2007 at the height of the credit bubble. More than half of them were hardly worth the effort, at least for shareholders. The stock prices of corporate acquirers in the 100 biggest deals during the period lagged their industry peers by an average of 3 percent over a two-year period, according to an analysis by Bloomberg News. Below are the best and worst performers from the last great merger wave. —*Zachary R. Mider*

Best Deals: Ranked by Total Return vs. Benchmark Index

Acquirer > Target

1. Suez > Electrabel

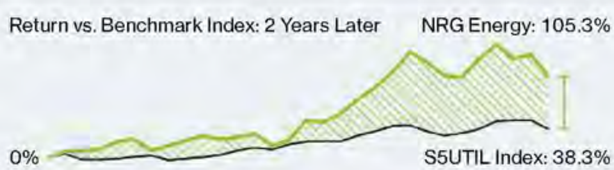
Deal value **$13.5bn**



Difference in Return **+82.8%**

2. NRG Energy > Texas Genco

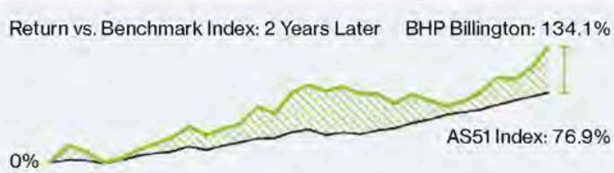
Deal value **$8.3bn**



Difference in Returnn **+67%**

3. BHP Billiton > WMC Resources

Deal value **$8.2bn**



Difference in Return **+57.2%**

Worst Deals: Ranked by Total Return vs. Benchmark Index

98. Boston Scientific > Guidant

Deal value **$25.2bn**



Difference in Return **–64.4%**

99. Barrick Gold > Placer Dome

Deal value **$10.2bn**



Difference in Return **–73.6%**

100. McClatchy > Knight Ridder

Deal value **$6.7bn**

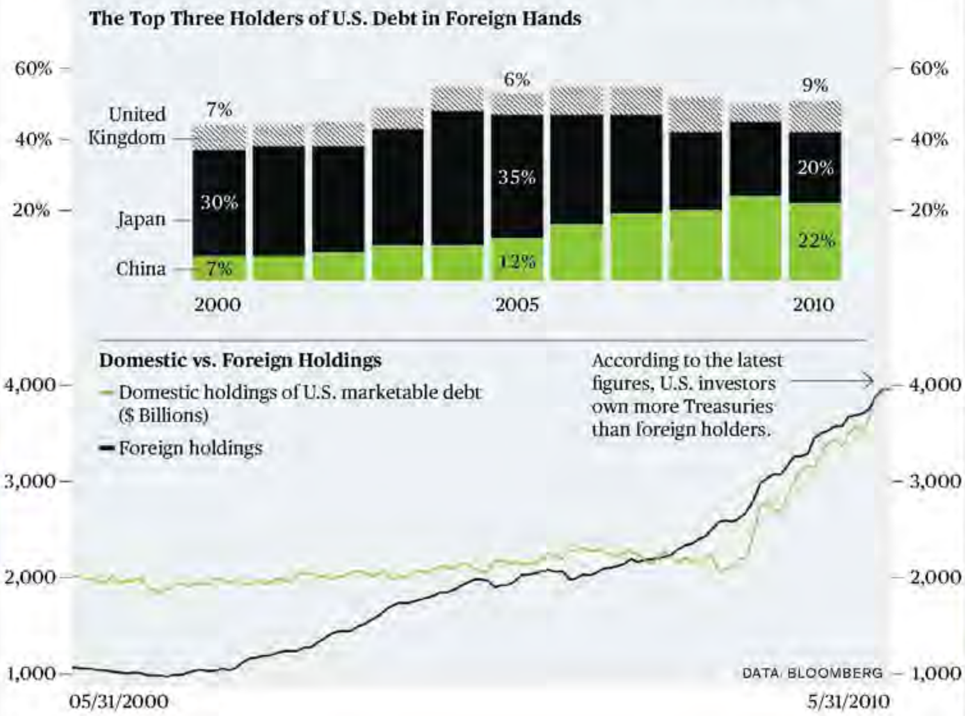


Difference in Return **–92.8%**

Credit Markets

U.S. Investors Hunger for Treasury Bonds

Savings-minded American investors now own more Treasuries than foreign holders for the first time since the start of the financial crisis in August 2007. *—Daniel Kruger*



high level right now," said Peter Wong, HSBC Holdings' chief executive for Asia Pacific, in an Aug. 3 interview with Bloomberg TV. "If it continues to increase, it may form a bubble."

Preventing that outcome is tricky for the former British territory, which since 1997 has operated as a special administrative region of China and has long run its own government and monetary policy. Simply raising interest rates isn't an option, because the Hong Kong dollar is pegged to the U.S. greenback. To manage that currency peg, the Hong Kong Monetary Authority has followed the Federal Reserve's lead on monetary policy and kept its benchmark base rate at 0.5 percent since November 2008.

In July the government sold a residential site in the city's luxurious Peak district for HK$10.4 billion ($1.3 billion). It will auction off other sites in Hong Kong's Kowloon and Kowloon Tong neighborhoods in the second half of August. After these scheduled sales, the government in the first eight months of the year will have sold land that could accommodate 11,200 apartments (most of Hong Kong's housing stock consists of flats). In both 2008 and 2009, sales were just 7,500 units for the whole year. Since almost all homes are in high-rises that usually take at least four years to complete, greater supply won't translate into more apartments until 2014 at the earliest.

The Hong Kong government on Aug. 10 ordered real estate companies to improve the transparency of property transactions. The government has launched an investigation of Henderson Land Development, controlled by billionaire Lee Shau-kee, over the cancellation of the sale of 20 luxury flats, including one that would have set a sales record. When announced last fall, the deal buoyed Hong Kong's luxury residential market. In another move to slow things down, the government in April implemented a new transaction fee of 4.25 percent on properties worth more than HK$20 million, or $2.5 million. Henderson has denied any wrongdoing.

As for the broader market dynamics, not everyone buys the bubble scenario. Ultra-low interest rates mean the average household spends less than 40 percent of its income to finance property, vs. 90 percent back in 1997. Also, a wave of new buyers willing to pay in cash from the mainland shows no sign of dissipating.

Still, Hong Kong Chief Executive Donald Tsang, the top government official, wants to avoid a replay of 1997, when home prices rose to dizzying levels, then crashed. Hong Kong's current average home price is about 15 times average household income, says Nicole Wong, an analyst with CLSA Asia-Pacific Markets in Hong Kong. The last time prices were that high was right before the 1997 crash. "A lot of people are finding prices very difficult to comprehend," says Wong. *—Bruce Einhorn, with Susan Li and Kelvin Wong*

The bottom line *To avert a property bubble, the Hong Kong government is selling off part of its vast land holdings to boost supply.*

Stock Forecast

The Market's Economic Disconnect

- **The consensus sees a 20 percent S&P rally in the second half**
- **"Corporate earnings are what really matter at the end of the day"**

There's discord on Wall Street: Strategists at major American investment banks see a double-digit stock rally in the second half, even as economists—sometimes at the same firms—are trimming their 2010 forecasts for the U.S. economy.

Tom Lee, chief U.S. equity strategist at JPMorgan Chase, says rising profits will drive the Standard & Poor's 500-stock index up 16 percent by yearend, while the firm's chief economist, Michael Feroli, argues declining factory orders are cutting economic growth. At Bank of America, head of U.S. equity strategy David Bianco predicts the S&P 500 will reach 1,300, up from a current 1,121, thanks to record low inter-

OPPOSITE PAGE: BANKS: COMSTOCK IMAGES/GETTY IMAGES; MINING: DON FARRALL/GETTY IMAGES; CABLE: BRENDAN SMIALOWSKI/GETTY IMAGES

est rates; his colleague, chief economist Ethan Harris, says changing financial regulation is causing the economic expansion to slow.

"Both can be right, in the sense that you can have a slowdown in the rate of growth within the economy, which is what most economists are calling for, but still continue to see earnings grow," says Bruce McCain, chief investment strategist at Cleveland-based Key Private Bank, which manages $25 billion. "The cautiousness with respect to the economy is actually enhancing earnings because they're slowing down investments that would be a drag."

The fastest annual earnings increase in 22 years will push the S&P index up 20 percent in the last six months of 2010 to 1,242, according to the average projection of 12 firms compiled Aug. 3 by Bloomberg. Cash at S&P 500 companies has risen six straight quarters to $836.8 billion as executives have fired workers and reduced capital spending, according to S&P. Earnings at the same companies will increase 35 percent in 2010, the biggest annual gain since 1988, according to more than 8,000 analyst estimates compiled by Bloomberg.

While corporate earnings are increasing faster than predicted, gross domestic product growth trailed forecasts in the second quarter. JPMorgan's Feroli says a slowdown in manufacturing and a plunge in factory orders are bigger drags than government data have reported. He says second-quarter expansion was almost a percentage point below the estimated 2.4 percent annual rate reported July 30 (revised data are due out on Aug. 27). He expects unemployment to remain near 9.5 percent this year.

"There's a tug-of-war right now between people who look at the economic data and say it's still pretty disappointing, even a double dip, and other people who are looking at business trends and thinking the recovery is under way," says John Carey, a Boston-based money manager at Pioneer Investment Management, which oversees about $230 billion. "Corporate earnings are what really matter at the end of the day to investors, not economic forecasts." B

—*Whitney Kisling and Caroline Dye*

***The bottom line** Wall Street equity strategists see a stock rally in the second half, even as economists see headwinds aplenty for the U.S. economy.*

Bid & Ask

by Suzanne Woolley



Collectibles

A rare, 70-year-old copy of Batman No. 1 sold for **$55,269** at auction. The seller, an Alaskan collector, bought the comic and two others for $300 in 1974 from a man who found them in the stuck drawer of a dresser bought at a garage sale. Heritage Auction Galleries expected the comic to fetch $40,000 to $45,000; the whiteness of its pages helped fuel a higher price from the anonymous buyer.

$25.8bn

Energy

Value of a deal, including debt, between France's GDF Suez, operator of Europe's largest natural-gas network, and the U.K.'s International Power. GDF will pay IP shareholders $2.2 billion in a special dividend. The deal creates the world's biggest independent power producer by capacity.

Oil & Gas

Nabors Industries, the world's largest onshore petroleum driller, will acquire Superior Well Services in a deal valued at about **$900 million.** Just under $736 million of that will be paid in cash. Superior's largest business is in "pressure pumping," which helps free oil and natural gas from deposits in rocks such as shale. The deal adds to Nabors' presence in the gas-rich Marcellus shale region.

Cable

Carlos Slim's Embratel Participações, Brazil's largest long-distance telecommunications company, offered as much as **$2.6 billion** to buy out fellow holders of preferred shares in cable-TV giant Net Serviços de Comunicação. Embratel said it is "confident" about Brazil's growing pay-TV and broadband Internet industry.



$2.7bn

Banks

Royal Bank of Scotland, the U.K.'s biggest government-owned bank, agreed to sell a majority of its credit-card payment processing unit to Advent International and Bain Capital for **$2.7 billion.** RBS must sell noncore assets to comply with EU rules after taking part in a taxpayer-financed rescue in the credit crisis.





Mining

India Coal, the world's largest producer of coal, could garner more than **$2.8 billion** in a planned October initial public offering. The IPO—which would be India's largest if it tops $2.9 billion—represents 10 percent of the government-owned company's shares. Prime Minister Manmohan Singh has set a goal of raising nearly $9 billion from asset sales in the year ending Mar. 31.

Debt Markets

Venezuela will sell **$3 billion** of dollar-denominated bonds to local investors after the government's borrowing costs dropped in the last two months. The bonds will pay a 12.75 percent interest rate. Venezuela last sold dollar bonds in October, when it issued $5 billion of bonds due in 2019 and 2024. The new bonds will mature in 2022.



The Coast Is Not Clear

Though the BP oil spill's impact is much less severe than feared, long-term threats remain: wetlands destruction, dead zones, and climate change. They make the spill look almost minor.

By Peter Coy



Visit the Gulf of Mexico today and you'd hardly recognize it as the scene of what President Barack Obama called "the worst environmental disaster America has ever faced." It's as if scientists had conducted an insane experiment—dumping some 4.9 million barrels of oil into the ocean water—and discovered that its effect was in some ways negligible. Some 21 years after the Exxon Valdez disaster, you can still find globs of oil in Alaska's Prince William Sound. Yet the Gulf appears to be scrubbing itself: Sunshine is evaporating—and bacteria are rapidly digesting—the spilled oil. Less crude has infiltrated vulnerable wetlands than was widely feared. Documented fish and bird kills have been small, and most Gulf beaches remain pristine.

Although serious concerns remain about the spill's long-term impact on coastal wetlands and deepwater creatures, the short-term trend is unmistakably positive: On Aug. 10 the National Oceanic & Atmospheric Administration (NOAA) announced it was opening an additional 5,000 square miles of the Gulf to fishing, leaving 22 percent of federal waters still closed. Harlon Pearce, who runs a wholesale seafood business in Kenner, La., says that with more fish and shellfish passing rigorous smell tests and chemical assays, "I really feel good that we're going to be getting into large production this September, October, and November." Morgan Stanley said on Aug. 3 that while the spill is a "significant shock to the regional economy," there will be "essentially no impact" on U.S. economic input this year or next.

That the Gulf is recovering does not mean all is well. It turns out that the disaster that transfixed the nation isn't the biggest threat to the Gulf's health. Environmental scientists point to more serious and persistent (albeit less telegenic) threats, including the continued loss of wetlands, the impact of global climate change, and the supercharging of the Gulf with fertilizer that flows down the Mississippi River from Midwestern farms. According to Larry McKinney, director of the Harte Research Institute at the Gulf-front Corpus Christi campus of Texas A&M University: "The spill is minor compared to those threats." It's as if a gunshot victim recovered from his wound, then had to battle metastatic cancer.

The patient has a fighting chance. Thanks to favorable winds and human intervention, little oil from the BP spill reached the estuaries where it can do serious damage. The light, sweet crude that stayed at sea is being disposed of rapidly by bacteria that have evolved to feed off the oil and methane that naturally seep from the seafloor. Roger Sassen, an adjunct professor of geology and geophysics at Texas A&M, goes so far as to say that "in a year or two we can forget this ever happened." Argues Sassen: "The fact that the Mississippi is the drainage ditch for the fertilizers and nasty agricultural chemicals of the entire central U.S. is much worse than this transient spill."

Even experts who are less sanguine see the oil spill as an added burden rather than a knockout blow. Jane Lubchenco, the marine ecologist who heads NOAA, says that the Gulf's waters and coasts "have been undergoing a series of changes over the years that have progressively compromised the health of more and more of the system." Speaking to reporters by phone on Aug. 10 while traveling in the region, she added: "Each of these changes doesn't happen in isolation. This spill interacts with and is on top of the other changes in the Gulf."

The Gulf's long-term nemeses can't be capped like a runaway oil well. Although slower-acting, they will have profound economic as well as environmental impacts, and responsibility for them can't be easily assigned. The Iowa corn farmer whose excessive use of fertilizer contributes to choking off oxygen in the Gulf is harder to blame than, say, Tony Hayward, BP's outgoing chief executive.

The spill could do its worst damage by exacerbating existing threats. Harm to the bluefin tuna, prized both as a gamefish and as a culinary delicacy retailing for $100 a pound, is the premier example. It ranges the Atlantic but spawns just once a year: precisely where and when the BP spill occurred. The floating beds of brown seaweed that shelter bluefin larvae and fingerlings soak up oil like a sponge. Ocean biologists worry that the spill might have wiped out most of the 2010 generation of Gulf bluefins.

Ordinarily, the loss of a year's worth of fish might be tolerable. The problem: Severe overfishing in international waters of the Atlantic Ocean has already endangered the Gulf-spawning population of bluefins, down by 80 percent since 1970. (American fishermen landed a little less than 800 tons of bluefins in the West Atlantic in 2008, while other nations' fleets landed about 1,200 tons, according to the International Commission for the Conservation of Atlantic Tunas.) The spill could possibly push the bluefin population into outright collapse, says Robert L. Shipp, chairman of the Gulf of Mexico Fishery Management Council as well as the marine sciences department at the University of South Alabama. The only other population of the species, which spawns in the Mediterranean Sea, is also threatened.

The single biggest challenge to the Gulf's ecosystem may be the ongoing loss of wetlands, estimated at 25 to 30 square miles' worth per year. Estuaries and marshes provide shelter for commercially important crabs and shrimp. They also buffer humans from the impact of hurricanes and soak up the nitrogenous compounds from fertilizer and manure runoff that are borne down the Mississippi. Nitrogen that the wetlands don't capture feeds algal blooms. Bacteria that feed on the algae use up oxygen in the depths of the Gulf, creating a seasonal "dead

The Gulf has evolved to handle oil—bacteria specialize in living off the light, sweet crude that seeps from the seafloor. Little of the oil reached the estuaries, where it could have done great damage.

PREVIOUS SPREAD: JOEL SARTORE/NATIONAL GEOGRAPHIC; THIS PAGE: DAVID B. FLEETHAM/SEAPICS; CHARLIE VARLEY/SIPA PRESS

Oil on Troubled Waters: The Gulf faced major threats before the BP disaster, and they remain

Overfishing

The West Atlantic population of bluefin tuna, which spawns precisely when and where the spill occurred, has been endangered by overfishing in international waters.

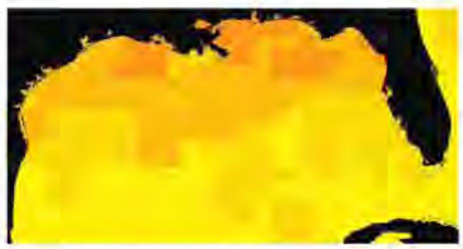


Quantity of fish in population by weight		
1970	**45,000**	metric tons
2007	**8,500**	metric tons

DATA: INTERNATIONAL COMMISSION FOR THE CONSERVATION OF ATLANTIC TUNAS

Global Climate Change

Warming oceans are encouraging the spread of invasive species such as lionfish and the Chinese tallow tree.



Temperature compared with average sea surface temperature from 1985-90, plus 1993

+0.5–1.0°C +1.0–1.5°C +1.5–2.0°C +2.0–2.5°C

DATA: NATIONAL OCEANIC & ATMOSPHERIC ADMINISTRATION

Wetlands Destruction

Coastal marshes absorb fertilizer runoff from farms and buffer civilization from Gulf storms.



Losses in coastal watersheds, 1998 to 2004		
Great Lakes	**20,000**	acres
Atlantic	**110,000**	acres
Gulf of Mexico	**510,000**	acres

DATA: NOAA

zone" that's hospitable only to jellyfish, bacteria, and some worms. This month the Louisiana Universities Marine Consortium announced that the low-oxygen zone extended for 7,722 square miles, the fifth biggest on record.

What's unknown is whether oil from the spill will significantly accelerate the destruction of the wetlands. The wetlands are sinking because levees along the Mississippi's ship channel prevent silt from replenishing them. Pipeline channels have diced up the wetlands, further weakening them. When an area of wetlands finally sinks beneath the waves, it exposes an adjoining area to the waves' action, speeding up losses. Says McKinney: "If the rate of loss accelerates to 35 or 40 square miles a year, it will give us less time to come up with a restoration plan."

Global warming subtly worsens many of the Gulf's problems. Warmer Gulf waters are conducive to the spread of the voracious lionfish, a tropical Pacific fish with poisonous spokes that displaces native species, and the equally aggressive Chinese tallow tree, which has infested Gulf marshes. Plus, the shores of the Gulf lie so low that a sea level rise of just inches can inundate huge swaths of fertile coastline. (Seas have risen 8 inches in the past century, NOAA says.) The BP spill could potentially give more of a toehold to invasive species by weakening native ones, McKinney says.

Scientists studying the Gulf's health emphasize that all damage assessments are strictly preliminary, so the bad news might not be over. A female crab lays about 3 million eggs, of which a handful grow up to be crabs. Many of the rest are eaten by fish and other crabs. So when oil droplets and chemical dispersant showed up in the larvae of blue crabs, it was a danger sign for the whole food chain. Judy Haner, marine program director for the Nature Conservancy in Mobile, Ala., says damage to fish populations could take three to four years to manifest itself.

Another stubborn unknown is the impact of the spill on small fish, such as menhaden, sardines, small jacks, and anchovies, that are food for creatures higher up the chain. Anchovies and menhaden are filter feeders that swim with their mouths agape, catching tiny food particles in their gill filaments. The tiny oil droplets suspended in subsea clouds could kill the fishes' food source, the near-microscopic crustaceans called copepods. The droplets could also clog the fishes' gills. At the same time, oil-eating bacteria could exhaust oxygen supplies in deep waters. Next unknown: If fish in the plumes do die, will others occupy their niche as the pollution clears and oxygen increases? Shipp, of the University of South Alabama, says he thinks the spill should continue to be regarded as Public Enemy No. 1 for the Gulf until those kinds of questions are answered.

BP has agreed to set aside $500 million for environmental study in the Gulf, many times the normal level of spending. That ought to be enough to get to the bottom of things. "If BP has put the money aside like they say and they don't renege on their promises and the government doesn't strip the money for other purposes–and those are big ifs–there should be money for studies of this spill," says Edward Overton, an environmental chemist and professor emeritus at Louisiana State University. After that, the far greater challenge will be to apply the newfound knowledge to helping the resilient Gulf survive all of its many man-made wounds. Ⓑ *–With Kim Chipman*

Extreme Moneyball

Frank and Jamie McCourt borrowed and blustered their way into a California dream life of mansions, Gulfstream jets, and ownership of the Los Angeles Dodgers. The dream has ended. By Richard Siklos





Jamie McCourt's Beverly Hills offices—also known as Jamie Enterprises—are as tastefully understated as the yellow sundress she was wearing on a recent August afternoon. The wall behind her desk is filled with baseball caps, arranged neatly in rows, and photos of her at the Obama inauguration are prominently placed. She pulls out a tribute video from happier days, before her husband of 30 years, Frank McCourt, fired her as chief executive officer of the Los Angeles Dodgers baseball team: Vin Scully, the team's legendary announcer, praises her "brains and energy"; Tommy Lasorda says "she does a wonderful job"; and the dean of UCLA's business school gushes that she is a role model for women who is a "gorgeous, energetic, smart, brilliant person." Jamie is shown hugging players and her sons, and swimming her morning laps at the McCourts' Beverly Hills mansion. At the end, the petite, now 56-year-old blonde says to the camera: "There's that myth about having it all at one time. I don't think that's true, but you can have a lot."

It's from this office, for the better part of a year, that McCourt has been plotting her quixotic return to the Dodgers front office. Last October, Frank McCourt alleged, among other things, that she'd had an affair with the ballclub's "director of protocol," before casting her out of a job she says she loved. Since then, Jamie has been painted by her husband as professionally inept, consumed by publicity, and living a lifestyle that is "out of control." She disputes it and believes she will win a court case that begins on Aug. 30, in which the fate of the Dodgers is set to be determined. Her plan is to buy her estranged husband out of his share of the team and return triumphantly to the owner's box.

In a town where celebrity scandals are as common as wildfires and taco trucks, the McCourts have transfixed the city with tales of marital discord and conspicuous consumption—which was fueled by more than $100 million they have taken out of the ballclub since buying it in 2004, according to depositions. Theirs could be the most expensive divorce in California history, with the total bill estimated by both parties to be approaching $20 million and rising. It's also a cautionary tale about what happens when marriage and business fuse into a toxic partnership.

Their story has social and moral components, too: Frank and Jamie McCourt are embodiments of the boom-and-bust ethos of the past decade, a miraculous period when a pair of relative unknowns could borrow and bluster their way into a lifestyle that includes mansions, private planes, and one of the premier trophy properties in the history of sports. Now, as it all threatens to unravel along with their 40-year relationship, the McCourts have embarked on one last luxury binge, hiring some of the priciest lawyers in the business, including, on Jamie's team, David Boies, who just successfully fought to have California's same-sex marriage ban overturned, and Bert Fields, who has represented the Beatles and Tom Cruise, among others. In Frank's corner is Stephen Susman, a Houston-based litigator described by the *American Bar Association Journal* as "a voracious animal" who "scares people on his own side."

As allegations have flown back and forth like spitballs, efforts to settle the case have been unsuccessful, and Los Angeles County Superior Court



Judge Scott Gordon has raised the possibility that if the couple can't reach an agreement, the Dodgers might have to be sold for no other reason than to pay their legal bills. A growing chorus of fans and columnists would like to see that happen. The team—which the McCourts have revitalized, leading the club to the playoffs three of the past four seasons—is now seen as adrift: Its general manager says he's tired of being asked whether woes on the field are related to ownership turmoil.

Jamie claims to be as shocked as anyone by what's happened. "I thought we were best friends," she says of her husband. Frank, who declined to be interviewed for this story, has mostly stayed quiet about the collapse of his marriage. A few weeks ago he did tell a group of local business leaders: "I have marital agreements with Jamie that make it crystal clear I own the Dodgers, that the Dodgers are not for sale." He is referring to a seven-page document he and Jamie signed a month after they bought the team in February, 2004, which, on first reading, does seem to say quite plainly that Frank owns the team and she does not. But Jamie and Boies, her lead attorney, argue that the story is more nuanced. "To contend that this is simply about a contract that you or I might enter into," Boies says, "totally ignores the nature of a marriage."

> "To contend that this is simply about a contract," Boies says, "totally ignores the nature of a marriage"

Jamie and Frank met at Georgetown University when she was 17 and Frank was 18. As Irish and Bostonian as they come, Frank was the fourth generation of McCourts to work in construction and grew up in a middle-class home with six siblings. Jamie was raised in Baltimore, where her father, Jack Luskin, owned a successful chain of discount TV and appliance shops. Jamie and Frank were married in 1979—her Jewish parents disapproved of the interfaith marriage and didn't attend. The couple lived in Boston, where Frank pursued ambitions of being a real estate developer. Jamie says she lent him the first $1,000 to start his company—one of many details from a life together that might be germane at trial and which Frank's side denies.

In 1987, Frank bought a 24-acre parcel of land on Boston's waterfront that had been the rail yard for the bankrupt Penn Central Transportation for around $8 million, and then spent the next quarter century making plans for the plot, known as the Seaport property, and operating it as a lucrative parking lot. He fought bitter lawsuits and also took on debt to fund new projects and to buy bigger homes, eventually moving into an 18,000-square-foot estate in Brookline, Mass., where the McCourts raised four boys. Unlike her husband, Jamie is a self-described "big worrier" when it comes to money. She was horrified, she says, when, early in the marriage, a sheriff appeared at their door to collect a debt related to her husband's business and when a lien was later taken out against their house. Because of this, the McCourts decided that their residences would be put solely in Jamie's name.

Jamie earned a law degree from the University of Maryland and an MBA from Massachusetts Institute of Technology and practiced family and real estate law in Boston before joining McCourt Co. in 1994, to work alongside her husband as general counsel and later vice-president. It was her lifelong dream to own a big-league baseball club, and over time it became a shared dream. In 2001 they lost out on a bid to buy the Boston Red Sox but continued to look elsewhere. They were also dogged by money woes. A May 2003 internal memo to Frank and Jamie from a senior McCourt lieutenant entitled "here we go again" warned of a looming business and personal liquidity crisis if they didn't watch their spending.

Still, they pursued the Dodgers, which Rupert Murdoch's Fox Entertainment decided to sell in 2003 after seven years of lackluster ownership under the management of Robert Daly, former co-CEO of Warner Bros. The team was losing an average of $75 million a year, and Murchoch showed no affection for the game—what he wanted was the team's broadcast rights for Fox's regional sports cable network. Having just signed a 10-year contract on extremely good terms (with itself), Fox put the team up for sale. It attracted few serious bidders, among them the McCourts. The stated purchase price was $421 million, much of it borrowed. Fox was so eager to get the team off its books that it provided McCourt entities with two loans totaling $71 million, plus a separate two-year, $125 million loan with the Seaport property pledged as collateral. It even agreed to give McCourt a $50 million rebate to reimburse his companies "for certain preexisting commitments." In sum, Fox lent the money for nearly half the purchase price, though McCourt still had to come up with $225 million in cash, $125 million of which was also borrowed, a person close to him says.

PREVIOUS SPREAD: STADIUM: CHRISTOPHE ELISE/ICON SMI/CORBIS; MCCOURTS: JIM RUYMEN/REUTERS; FROM LEFT: PATRICIA MCDONNELL/AP PHOTO; REED SAXON/AP PHOTO; KATHRYN INDIEK/GLOBE PHOTOS; JEFFREY A. SALTER/SPORTS ILLUSTRATED/GETTY IMAGES; JIM RUYMEN/UPI PHOTO/LANDOV; GENARO MOLINA/LATIMES

Frank in his Boston office in 2001



On the pitcher's mound after the Dodgers purchase was approved



The happy couple, with children Casey and Gavin



According to someone who was involved in the sale for Fox, Jamie came to all the key meetings and seemed the smarter of the pair when it came to hammering out the finer points, though she possessed a more volatile personality. It was a huge financial stretch, but it also had the potential to be one of the greatest trades in history: With some creative financing, the McCourts essentially swapped a 24-acre parking lot in Boston for the 400 acres that hold Dodgers Stadium and the surrounding Chavez Ravine area near downtown Los Angeles, in addition to the team itself. They could eventually develop the land around the stadium, set up their own regional sports network, and sell the naming rights to the ballpark if they wanted to. Although press releases at the time said the team had been bought by Frank and Jamie McCourt, only Frank's signature was on Major League Baseball documents and papers guaranteeing the debts.

Unlike Massachusetts, California is a community property state, meaning any property acquired by a couple during marriage is owned equally, unless they agree otherwise. The McCourts enlisted their longtime Boston attorney, Lawrence Silverstein, to ensure that their homes would remain protected from creditors once they moved West. Silverstein drew up the now-contentious marital property agreement, which states that even in the event of a divorce or death, Jamie alone owns the residences, which at the time included the Brookline house as well as a $19.5 million, 100-acre estate on Cape Cod, a smaller house on a golf course nearby, and a ski place in Vail, Colo.

From the moment they stepped off a plane into the California sunshine, the McCourts were viewed warily by the locals—*Los Angeles Times* baseball columnist T. J. Simers routinely described Frank as "The Boston Parking Lot Attendant." But after a flurry of personnel changes, the Dodgers made the postseason in four of the next six years. Frank and Jamie ruled the club, with her as a hands-on president and later CEO and him as the big-picture owner. At many home games the pair would sit in the first row to the left of home plate, next to the Dodgers' dugout, his silver mane and her blonde bob visible from the cheap seats. Once, the TV cameras caught them in a kiss. Jamie became the Dodger's public face and a fixture in the city, joining the board of the Los Angeles Museum of Contemporary Art as well as the board of trustees at the University of Southern California.

> Soon after arriving in L.A., the McCourts spent $72.5 million on four homes in Beverly Hills and Malibu

In 2005, a year after buying the Dodgers, the McCourts refinanced their loans with a $250 million placement of notes that was used to pay back the $71 million in Fox loans, and presumably left over ample money to fund their ambitions. Despite Frank's perennial claims that he still intended to develop the Boston Seaport, rather than pay down the note in 2006 he defaulted on it, allowing Fox to take possession of the parking lot. The media giant quickly flipped it to another developer for a small profit.

According to depositions, Frank and Jamie also began taking money out of the company in the form of salary and "distributions"—a total of $108 million during their first six years of ownership. This is a striking figure, because it nearly equals the amount of cash Frank put into the ball club at purchase. Today, according to McCourt insiders, the Dodgers' debt load stands at around $525 million, the majority of it borrowed against future ticket sales. It appears that much of the money that flowed out went toward financing a real estate shopping spree: Soon after arriving in L.A., the couple (technically, Jamie) bought a $20 million, 15,000-square-foot home across from the Playboy Mansion in Beverly Hills; a $6.5 million "guest house" next door; a $27 million Malibu beach house; and the $19 million house beside that.

According to court documents, renovations at the first Beverly Hills home included building a natatorium to house the Olympic-size indoor pool where Jamie would swim laps, as well as steam, sauna, and massage rooms, the construction of a guardhouse, and having the entire kitchen of the McCourts' old home in Brookline carted up, shipped to L.A., and reconstructed at a cost of $180,000. They upgraded their NetJets account so they could fly in Gulfstreams rather than Citations and bought land in Cabo San Lucas, Mexico, for $4.6 million. They did sell their Brookline home in 2007, but in a March 2008 e-mail, Frank still told his wife that he was "thinking of ways" to reduce the debt carried on the houses: "These are all big commitments that are challenging right now financially but I am willing to figure out how to do it because I want to make you happy," he wrote. When asked why they had so many houses, Jamie says that they were simply trying to



Jamie at spring training in 2006



Joe and Ali Torre, with the McCourts, at Torre's introduction as the Dodgers' new manager in 2007



Jamie in 2006

recreate the life they enjoyed on the East Coast, where they had their city home and a getaway on the Cape. She added that Frank had been reluctant to sell any of the properties. In depositions, Frank described the couple's lifestyle starting in 2008 as becoming "out of control and unsustainable," but Jamie says he was the driving force behind many of the purchases and projects. (Her office is down the block from a hotel where Frank has been living in a $30,000-a-month suite and has an option to buy a $9 million condo.) "Let me tell you," she says, "I couldn't take a leaf from a tree without his approval."

Around the same time, during estate planning meetings with a lawyer in Los Angeles, Jamie says she was informed that the marital property agreement she and Frank had signed three years earlier gave her sole ownership of the houses and gave Frank sole ownership of the Dodgers in the event of divorce or death. By this time the value of the Dodgers had increased, while the real estate market was suffering. The lawyer, Leah Bishop, claims that Frank admitted in a meeting that this was a mistake and that everything should be shared. (Frank's lawyer says he was referring to something else.) Nonetheless, Frank appeared willing to revise the document and officially make the Dodgers community property, and Bishop set about drafting it. In one e-mail exchange between Bishop and Silverstein, the Boston lawyer who wrote the original MPA, Silverstein told Bishop that there hadn't been a mistake in the original MPA, writing, "I recall [Jamie] saying in those days she didn't care about the business assets so long as she had her separate pool." In response to Silverstein's e-mail, Jamie angrily wrote that this was "preposterous. ... Don't forget, I was a divorce lawyer there and I am really clear on what the intended distributions were to be ... my fault, I guess, for not having read the post marital document and believing that you were preserving the status quo."

Jamie's e-mail address was swimmer@ladodgers.com. Frank's was malibu@ladodgers.com. Swimmer copied Malibu on her angry e-mail, and Frank then wrote back: "Jamie–I don't have the energy to deal [with] this right now but on this point, and the history behind it, Larry is correct. That said, we have been talking about doing things differently moving forward–but the history is what it is and all our legal documents reflect this and have always reflected this." Swimmer then forwarded Malibu's response to estate lawyer Bishop, who wrote to Jamie: "He's right, but it needs to be changed before you guys kill each other."

Less than two weeks later, Jamie, in an affectionate e-mail to Frank, wondered why he still hadn't agreed to meet with the estate lawyer. "We should both remember that we've been life partners for nearly 40 years," wrote Jamie. "We have been enormously fortunate with our love, our health, our children, and our success together. I would really like to get this annoying estate work behind us for a variety of reasons. ... What about this am I missing, because it really makes me feel that you don't care about me? If we come through this troubling time in our lives we should think about renewing our vows ... I love you." What she didn't know until later that day is that Frank had changed his mind and written to Bishop: "We're not moving forward [with] any change of asset ownership at this time." This, Frank's lawyer Susman contends, underscores how valid the agreement is. "Pigs get fat and hogs get slaughtered," he says. "If she had not pushed him so hard, he might have changed it."

According to both sides, the McCourts' marital strain had roots that went deeper than the MPA issue. Jamie's role and profile at the Dodgers increasingly troubled Frank. A December 2008 memo written by a top Dodgers lieutenant that seems to lay out a blueprint for Jamie to run for U.S. President is seen as evidence of Jamie's wayward personal agendas, but she says it was a lark. Frank didn't see it that way. According to notes jotted down by lawyer Bishop during a conversation with him last summer: "He just realized she thinks she can run the team. Total disconnect with reality." As things were disintegrating, the *Los Angeles Business Journal* named the McCourts 2008's "power couple of the year."

Last summer they separated. Their growing domestic feud became fodder for the gossip site TMZ, which reported that Jamie had allegedly called 911 because she felt threatened by Frank when she was on a scheduled swim at the Beverly Hills house. Frank's lawyer said Frank knew nothing about it and told TMZ that Jamie had been at the house with the Dodgers' then "protocol" executive, Jeff Fuller, with whom she was allegedly romantically linked. Jamie declined to discuss her personal life. "I want to look back and say I took the high road," she says.

On Oct. 21, Jamie received an e-mail informing her that she was fired from the Dodgers. Frank wrote that the reasons included "insubordination" and "inappropriate behavior with regard to a direct subordinate." Jamie and Boies tried to gain

FROM LEFT: LARRY GOREN/ICON SMI/CORBIS; BING MAPS; BING MAPS; ALAN WEINTRAUB/ARCAID IMAGES; BING MAPS; JAE C. HONG/AP PHOTO; NICK UT/AP PHOTO; KIMBERLY WHITE/REUTERS


Jamie and Frank celebrate their team's advancement to the playoffs in 2008



The McCourts' compound across from the Playboy Mansion



The Malibu spread purchased from Courtney Cox and David Arquette

access to her office—which she had been locked out of—but were turned away at the guard gate. Boies brought along a cameraman, and the footage made its way onto TMZ. Judge Gordon denied Jamie's petition to be reinstated as CEO. More than 50 employees who had worked closely with her have been pushed out.

The legal battle and appurtenant depositions and documents reveal the extent to which the McCourts used the Dodgers to fund their lavish lifestyle. Two of their four sons were paid hundreds of thousands of dollars in salary by the team even though one worked at Goldman Sachs and the other was in school at Stanford. A Beverly Hills hair stylist was given more than $150,000 a year to primp both McCourts in their home. Vladimir Shpunt, a 71-year-old psychic healer who lives outside Boston, was paid an undisclosed amount until 2008 to beam his positive thoughts at the team during games while sitting in his living room some 3,000 miles away. Additionally, when Jamie went to court to fight Frank for spousal support, she claimed she was owed $444,000 a month in Dodger "perquisites," including $248,000 for leasing a private jet and nearly $95,000 for "access to the owner's suite, dugout seats, and food and beverages."

As this was going on, the amount of money the McCourts pay their ballplayers shrank. The opening-day payroll of around $95 million is the 11th-largest in the league, down from fourth in the last year of Murdoch ownership. So far, the Dodgers' 2010 performance has been disappointing. Star outfielder Manny Ramirez has been out with an injury, and Manager Joe Torre has been cryptic about whether he plans to stay beyond the current season. "Our payroll is down a little bit, but we don't lack for resources," says Dodgers General Manager Ned Colletti Jr. "If there's a distraction, it's that people continually ask the question. This is probably the 50th time I've been asked this question this year."

Jamie argued for spousal support, including $248,000 a month for a private jet and $95,000 in Dodgers perks

David Boies believes he has at least five legal arguments why the MPA is invalid. One is that Jamie did not have independent counsel at the time she signed it; even though she herself is a lawyer and Silverstein suggested she hire someone, how many people in a seemingly happy marriage, working with their longtime lawyer, would have done so? Boies' most sensational argument is based on something he discovered reading through the files one day: that the schedule of assets that designates each spouse's separate property was actually changed right before Jamie signed it on Mar. 31, 2004. Whereas earlier drafts had said Frank's sole property was "exclusive" of the Dodgers, the schedule was amended to say "inclusive." Forensics experts hired by Jamie's side also determined that three copies of the MPA that Frank signed had the wrong schedules attached to them, which were then switched. Boies argues that by altering a signed and notarized agreement without telling the parties, the agreements are invalidated: "It's not a technical issue, it's fraud," he says.

Susman argues that these were administrative errors that were corrected and says the evidence is clear that Jamie knew what she was signing. He wrote a letter on Aug. 10 to a member of Jamie's legal team: "Her credibility is shot and this is no doubt why her lawyers are now grasping at straws... ."

The bigger question, though, is why the McCourts haven't been able to settle their differences. Frank recently told the court that he has borrowed money from his brother and a friend because he is out of cash and was turned down for a loan. (Jamie's side says this was a subterfuge.) Judge Gordon did approve Frank's request to sell their Cabo San Lucas property for $5 million—which Jamie had opposed—with all the money going toward her legal fees and to cover past support payments of $637,000 a month that Frank has not made.

The parties can't agree on the value of the Dodgers, and Jamie is insistent that she get a piece of the business. Boies says she is willing to accept a minority share; Frank hasn't budged. His camp says he has offered far more money to Jamie than she would get if the Dodgers were ordered sold and the proceeds were split, after paying off the $525 million in debt. But that values the Dodgers at an estimated $700 million to $900 million. Jamie's side believes the team could be worth more than $1 billion, especially once the site is developed or the team has launched its own sports network. As the trial looms, Jamie knows firsthand how intractable Frank can be. "I'm disappointed, not surprised," she says. Neither, presumably, is Frank. In better days, he once said of their four-decade partnership: "It's been one long argument, actually." B

The Cape Cod estate




Frank before a Dodgers-St. Louis Cardinals game in 2009

Jamie with attorney Dennis Wasser




Power lawyer David Boies

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THE POPULARITY ISSUE



Popularity is not a state of grace. In business, it is treasure hard-won on the battlefields of product development and marketing, then leveraged or squandered or stolen back. Most of the products and ideas showcased here—the stuff we buy, sell, and otherwise consume the most owe their status in part to aggressive sales tactics, from knocking on doors to strong-arming grocers to gain the best shelf space. In its most potent and permanent form, however, popularity transcends sales pitches, advertising, fads, and maybe even conscious choice. One rarely reads or talks or thinks about peanut butter, yet Jif has eaten Skippy's lunch for 20 years, a sustained level of popularity that the iPhone can only dream about. While Jif rolls on, the iPhone—the most buzzworthy product of the last decade—will probably take its place amid the Palm and the Walkman in the great close-out bin in the sky. In short, if we have to think about a purchase, it's in a precarious position. The things we rarely pause to consider are the ones that stay on top.

In the following pages, you'll read about the churches we visit and the junk food we eat, the sneakers we wear, the Web videos we e-mail to each other, and the prescription drugs we take. Some is stuff we legitimately adore, like Nike Air Force Ones or cuddly Labrador Retrievers. Some make us scratch our heads—who buys a white car? Oh, you did? Sorry. See, that's another thing about popularity. Everybody has an opinion, and to some degree everybody defines himself *against* the mainstream. A few of the things we use the most are the ones we love the least, like Facebook, which according to ForeSee Results holds an approval rating close to that of the IRS. Our mission here is not to judge but to use the best available methodology—it varies widely from item to item—to determine the winners of the never-ending popularity contest that is the American economy. Your taste may differ. In fact, we're sure it does.

ILLUSTRATION: AL MURPHY

Cereal /

Honey Nut Cheerios

Cheerioats is the cereal's original name; it launched in 1941

Boxes of all Cheerios varieties sold per minute in fiscal 2010



Honey Nut Cheerios debuted in 1979 as a supporting player in the General Mills cast, and two decades later it overtook the star. Launched by a team that included then-Chief Executive Officer Stephen Sanger, it was the first of 10 extensions of the venerable Cheerios brand, which now include MultiGrain, Banana Nut, and Yogurt Burst. In 2008 it finally became the top-selling cereal in the U.S.; last year it sold 102 million units (not counting sales at Wal-Mart), according to research firm SymphonyIRI Group.

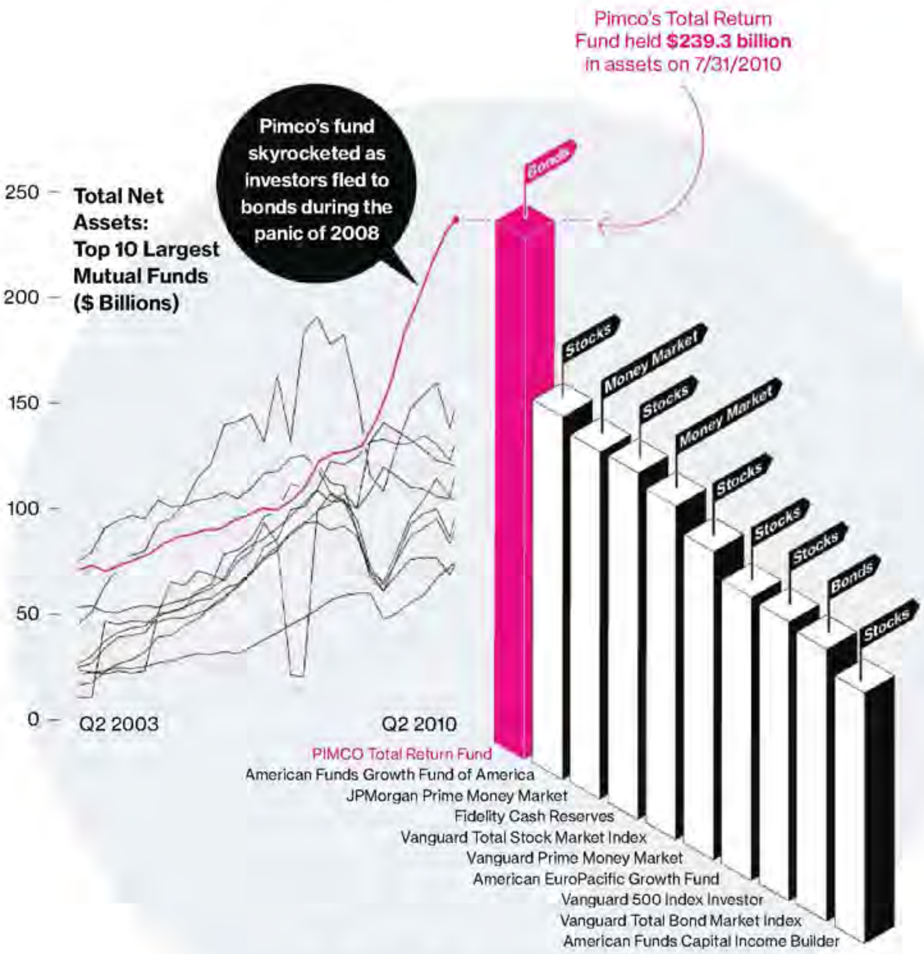
In part, Honey Nut Cheerios owes its success to the U.S. Hispanic market, the fastest-growing demographic. Marketing targeted to Hispanics touted the cereal's cholesterol-fighting benefits and helped boost sales to them by 65 percent over the past three years. The brand was also likely helped by a Latino preference for sweeter products, according to the Latinum Network in Bethesda, Md.

The product comes by its sweetness the old-fashioned way–it really does contain honey–although it uses "natural almond flavor," not actual nuts. —*Matthew Boyle*

RUNNERS-UP

❷ Cheerios ❸ Post Honey Bunches of Oats ❹ Kellogg Frosted Mini Wheats ❺ Kellogg Frosted Flakes

CHEERIO: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK



Mutual Fund / Pimco Total Return

With the stock market in chaos, the bond market has benefited from a multi-trillion-dollar flight to safety. The biggest beneficiary of the shift has been Bill Gross' Pimco, which runs the $239.3 billion Total Return Fund, the largest mutual fund in America. The Newport Beach (Calif.) management company's flagship is a one-stop fixed-income shopping option for a growing investor base that doesn't want to deal with individual bond purchases. According to Morningstar, Total Return draws around $1 billion of investor inflows a week. (It has been the largest bond fund since 1998, when it managed over $20 billion.) Pimco opened shop in 1971 with $12 million in assets. Now a unit of Munich-based insurer Allianz, it has a total of $1.07 trillion in assets.

Total Return is popular because it keeps delivering. Over the past five years the fund has registered an average annual return of 8.1 percent—two percentage points over its benchmark, the Barclays U.S. Aggregate Total Return Index. Last year the fund bested its benchmark by nearly eight points. While Pimco is not pounding the pavement for fresh money, the firm maintains a high profile; Gross appears constantly on television, and CEO Mohamed El-Erian published a widely reviewed book, *When Markets Collide*, in 2008. The firm has also retained the celebrity services of former Federal Reserve Chairman Alan Greenspan (as a consultant) and ex-Treasury TARP point man Neel Kashkari (as head of new investment initiatives). It is not uncommon for Pimco's managers to get into the California office at 4 a.m. and find Gross sitting Zen-like amid an array of monitors, his tie already loose around his collar. —*Roben Farzad*

RUNNERS-UP

❷ **American Growth Fund of America**
❸ **Vanguard Total Stock Market**
❹ **American Europacific Growth-A**
❺ **Vanguard 500 Index Fund**

Deodorant / Secret



"Strong enough for a man, made for a woman." That catchy slogan, introduced by Procter & Gamble in 1973, is part of what made Secret into a durable brand and this decade's top-selling deodorant. Last year the brand controlled 17.9 percent of America's $2.5 billion market, according to the market research firm Euromonitor International. Overall, America's population of 300 million consumed 582 million units of deodorant last year. —*Caroline Winter*

RUNNERS-UP

❷ **Axe** ❸ **Old Spice** ❹ **Degree** ❺ **Dove**

Car Color / White



Are we a color-blind continent? Fully 17.8 percent of cars sold in North America last year were white—the No. 1 choice, according to the annual DuPont Global Automotive Color Popularity Report. Black, the No. 2 color, scored a close second with 17 percent, having climbed six points since 2005. Silver, the global favorite, placed third in North America, totaling 16.7 percent of sales. —*C.W.*

ILLUSTRATION: AL MURPHY
PIMCO DATA: BLOOMBERG

Church

Lakewood, Houston

Over the past two decades, megachurches in the U.S. have expanded their flocks from 200,000 to more than 8 million souls, according to the 2008 American Religious Identification Survey from Trinity College in Hartford, Conn. The biggest by far is Lakewood Church in Houston, a non-denominational Christian congregation. The church seats 16,000 and boasts a weekly attendance of 43,500, according to evangelical magazine *Outreach*'s annual list of the "100 Largest and Fastest-Growing Churches." Lakewood's kinetic pastor, Joel Osteen, reaches 7 million U.S. TV viewers each week. His gospel of prosperity–"Don't simply settle for what your parents had"–is broadcast in 100 countries.

Although their most explosive growth may be behind them, megachurches are still attracting congregants. *Outreach* says America's 100 fastest-growing megachurches added 97,879 members last year. LifeChurch.tv grew fastest, adding more than 5,000. —*Caroline Winter*

RUNNERS-UP

❷ LifeChurch.tv, Edmond, Okla. ❸ Willow Creek Community Church, Chicago ❹ North Point Community Church, Alpharetta, Ga. ❺ Second Baptist Church of Houston



Start Here



2006
Air Force 1 Premium UTT Collection
A tribute to Negro League baseballplayers and the "untold truth" of forgotten sports heroes



The "Philly Elite" edition celebrates the hometown of Wilt Chamberlain and Kobe Bryant

2007
Air Force 1 '07 LE
Also known as the I-95 Pack, the shoes were released to pay homage to the East Coast hoops meccas



2008
KRINK x Nike Air Force 1
Created with New York City artist Craig "KR" Costello as part of Nike's guest-designed 1World collection



2009
Livestrong x UNDFTD Air Force 1
A limited edition, emblazoned with "ONYOURBIKEKID," raised money for Lance Armstrong's nonprofit



Sneaker

Nike Air Force 1

Air Force 1, released in 1982, was the first basketball shoe to include Nike's Air technology, which embeds airbag cushions in the soles of the shoes. But the sneaker's success came largely off the court, as a fashion accessory embraced first by the hip-hop community and now just about everybody.

Nike did not anticipate this level of popularity. The company largely stopped making AF1 after one year and didn't resume full-scale production until almost two decades later, when it was brought back by popular demand. Now it's a staple product; the all-white, low-cut version has been the best-selling sneaker in the U.S. since 2007; overall the brand sold 11 million pairs in

CHURCH: DANIEL ROSENTHAL/LAIF/REDUX; BASKETBALL, ARMSTRONG: GETTY IMAGES



1982
Air Force 1
The Air Force 1 is the first sneaker to come with hardware: an oval-shaped plate on the base of the laces



1983-2000
Nike shelves the AF1 because of the success of Michael Jordan's eponymous line, their new "Flight" sneakers, and cross-trainers, then rediscovers the by-then retro shoes and turns them into mini-billboards



2004
HTM Air Force 1
Extremely limited release of 3,012 pairs made of crocodile skin



2005
Air Force 1 Mid Prem
The first basketball shoe designed for a pro athlete in another sport: Michael Vick



The U.S. edition in Nike's new line of Air Force 1's for its inaugural WorldBasketball Festival

2010
WBF Air Force 1 Country Collection: The latest release celebrates the World Basketball Festival

2009 for more than $1 billion, according to researcher Sports One Source. It's also become a blank slate for designers to experiment with different themes, materials, and color combinations. About 1,700 versions have been produced, using everything from 18-carat gold to chenille to straw to crocodile skin. Beaverton (Ore.)-based Nike touted the shoe's hip-hop credibility for AFI's 25th anniversary in 2007, commissioning a song featuring Kanye West. It keeps up a rigorous series of limited editions dedicated to things like Black History Month and the five boroughs of New York (the latter released just last month). Oh, and some people still wear them to play basketball.
—*Matt Townsend*

Popularity Face-Off

Red or **White**



Red 47%
White 40%
Rose 13%

Whole or **Skim**



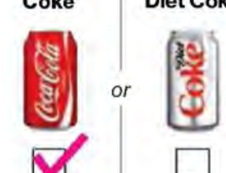
Skim 61 servings
Whole 45 servings
Annual per capita

Boxers or **Briefs**



Briefs 38.1%
Long leg briefs 27.8%
Boxers 22.7%
Unit volume share

Coke or **Diet Coke**



Coke 17%; Diet Coke 9.9%; Pepsi 9.9%
Share of carbonated soft drink market

Chicken or **Beef**



Chicken 87 pounds
Beef 66 pounds
Annual per capita consumption

2010 SNEAKER: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; KILGORE, VICK, CROCODILE: GETTY IMAGES; POPULARITY FACE-OFF: AGE FOTOSTOCK (1), ALAMY (1), GETTY (4)
POPULARITY FACE-OFF DATA: THE WINE INSTITUTE, NPD GROUP, BEVERAGE DIGEST, USDA

Case Study

Felix Gillette



Web Search Volume for Olivia Munn

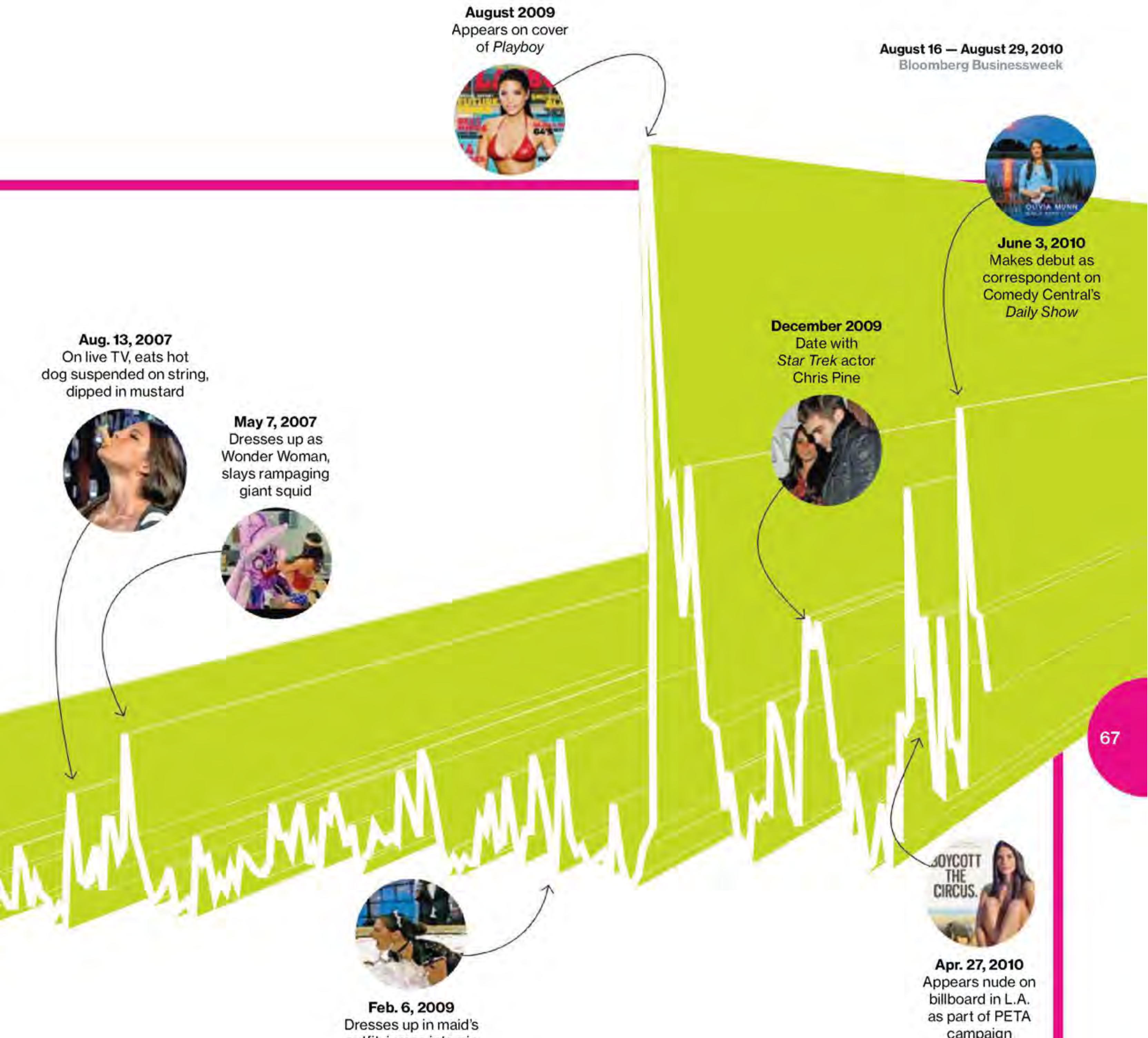
Apr. 10, 2006
Begins co-hosting G4's *Attack of the Show!*

How Olivia Munn Went Parabolic

Getting famous by relentlessly pursuing the uncool

Six years ago, Olivia Munn arrived in Hollywood with fading ambitions of making it as a sports reporter and set about deploying her good looks in promotional campaigns for sodas, sneakers, and rock bands. None of it got her anywhere. Things started to change only when she found a niche market to target: nerdy guys. "The people who control popularity," says Munn, "are the people who are not popular."

In 2006, Munn joined the cast of *Attack of the Show!*, a live variety program that runs weeknights on G4, a peripheral cable network with 70 million U.S. cable and satellite subscribers geared to the passions (video games, viral videos, gadgets) of young men uninterested in sports. On



the show, Munn and her cohorts regularly perform sketch comedy routines satirizing the staples of science fiction—vampire flight attendants, undead bureaucrats, bickering superheroes. Within this world, Munn typically plays suggestively clad, domineering female characters. The sexuality is undercut with a goofiness that aims to stoke young men's fantasies and get them forwarding video clips to one another. It doesn't take much. A clip of Munn wearing a sexy maid's outfit and jumping into a pie racked up more than 800,000 views.

If this sounds rather piddling by the standards of, say, Lady Gaga, it is. But in lieu of a hit movie, hit song, or any of the traditional vehicles of stardom, Munn effectively has conjured popularity out of thin air. Last year she was a blip on the screen of *Maxim* magazine, which ranked her the 96th hottest woman in the world. This year she shot to No. 8. In May, Munn played the small role of reporter Chess Roberts in *Iron Man 2*. In June she joined Comedy Central as a *Daily Show with Jon Stewart* correspondent. In July she published her first book, *Suck It, Wonder Woman!: The Misadventures of a Hollywood Geek*, which made its debut at No. 26 on the *New York Times* best-seller list. This fall she plays a recurring role on the action comedy series *Chuck*, while also starring in a new NBC sitcom, *Perfect Couples*, co-created by former *30 Rock* writer Jon Pollack.

Munn provides the ultimate case study in the current mechanics of human popularity. She plays in the field's top venue (Hollywood) and is making extraordinary advances at a time of unprecedented competition and scrutiny. Every move she makes, personally and professionally, is record-

MUNN: COURTESY G4; FEVER LINE: GETTY IMAGES (1), YOUTUBE (4)
DATA: GOOGLE TRENDS

Case Study

Munn at the 2010 Comic-Con convention ...





... and pre-fame, at 13

ed on the Internet—as are her audiences' reactions. What was once ethereal and fleeting, the adoration of strangers, is now recorded for digital posterity in search engines and Web forums. And unlike most in Hollywood, Munn is happy to discuss and analyze her cutthroat pursuit of popularity—a subject that remains one of the entertainment world's last taboos. The more people chase popularity, the more they tend to rationalize it as something else. Not Munn. "People say, 'Oh, yeah, I wasn't popular growing up—I didn't care,'" says Munn. "Everybody cares. Somebody needs to say it."

Growing up in a military family—the Munns moved from Utah to Japan to Oklahoma back to Japan and back to Oklahoma—Munn developed an early thirst for popularity. During much of her adolescence, she felt like an outsider and experimented with radical self-packaging. "Almost every month I would join a new clique," she writes in her book. "But not just join them, I would completely transform myself." She adopted the trappings of student government kids, alternative potheads, debate geeks, jocks, partiers, and ultimately mean cheerleaders. "All the things she wanted, she got," says Corinne Secrease, a friend who first met Munn in the eighth grade in Tokyo and is now studying to be a nurse.

After graduating from the University of Oklahoma with a major in journalism and moving to Hollywood, Munn landed her first screen role in 2004, playing Girl #1 in the slasher film *Scarecrow Gone Wild*. This did not set her career on fire. Munn was born in July 1980, the same month as actor Kristen Bell, model Gisele Bűndchen, and singer Jessica Simpson. Between 2004 and 2010 (the time period for which data are available), people searched Google for Munn less often than Bell (by 42 percent), Bűndchen (by 54 percent), or Simpson (by 96 percent). Mass curiosity didn't begin to register until 2006, the year Munn began co-hosting *Attack of the Show!* From that point, her search volume has ratcheted upward, in a series of peaks and valleys. After each spike, including a big one in the summer of 2009 when she appeared on the cover of *Playboy*, the interest tapers off. Over time, though, the baseline keeps rising.

In 2009, Munn nearly caught up with Bell and pulled ahead of Bűndchen in search volume for the year. (They all still trail Jessica Simpson.) That's what can happen if, like Munn, you're willing to put your head in a "balloon torture chamber" (YouTube views: 364,406) or suggestively consume a hot dog (7,951,685 views).

Any major leap in popularity, she learned years ago, comes with the potential for a backlash. In June, shortly after Munn got the *Daily Show* job, an anonymous female comedian, in a blog post on Jezebel, essentially accused the show's producers of hiring Munn purely for her sex appeal. Another Jezebel post described Munn as a "potty-mouthed provocateur whose appeal seems targeted to what she thinks men want."

While Munn returned fire, Jon Stewart and the *Daily Show* cast rallied around her. That led to a boomlet of articles, blog posts, and anonymous commentary that spiked her search volume on Google. Munn says the furor helped her bond with her new colleagues. "If the critics want to say something, fine, it doesn't hurt me," she says. "What was more annoying was Jezebel getting any attention at all."

Although she rose to prominence as a virtual star, Munn still embraces the retail side of celebrity, bravely venturing where few women have dared to go, like a May 2007 gathering of *Star Wars* fans in Los Angeles, where she appeared as Princess Leia in a gold bikini. She also caters to the needs of her official fan club, which has more than 30,000 members, occasionally inviting them all to meet her at a specific time and place, creating flash mobs of fandom. At this year's Comic-Con International convention in San Diego, which she covered for *Attack of the Show!*, she sat down for dessert with 16 of her superfans, including a guy who flew in from Australia. It pays to be nice, she says, because "popular doesn't mean people like you. Popular just means that people know who you are. In the end, it could all go away." B

COMIC-CON: JOE SCARNICI/FILMMAGIC/GETTY IMAGES



Drug /

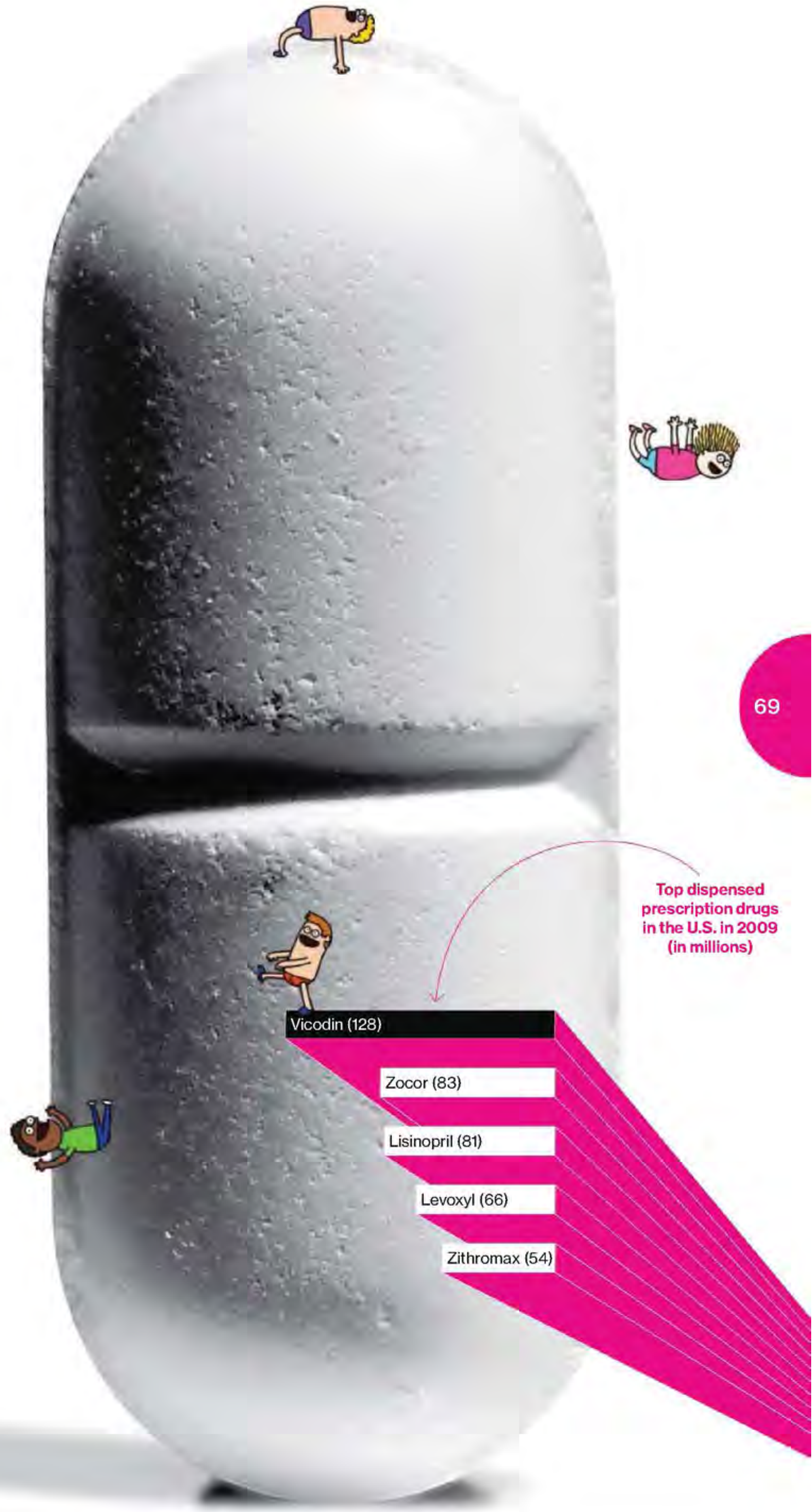
Vicodin

A nation of masochists we are not: The most dispensed prescription drug in the U.S. was hydrocodone with acetaminophen, the drug formerly known as Vicodin. The U.S. Food & Drug Administration approved Vicodin, made by Abbott Laboratories, in 1984. In 2009 generic Vicodin was dispensed 128 million times in the U.S., according to data from research firm IMS Health, based in Norwalk, Conn.

"Vicodin isn't just prescribed in the doctor's office," said analyst Les Funtleyder, of Miller Tabak in New York. "Dentists don't prescribe Lipitor, but they do prescribe Vicodin after a procedure. Most people are not big fans of pain."

Vicodin has also developed a reputation as a party drug, with 9.7 percent of U.S. high school seniors reporting nonmedical use of the drug in 2008, according to the National Institute on Drug Abuse. A 2008 study by the Florida Medical Examiners Commission found that in 2007 legal opioids such as Vicodin and OxyContin caused more than twice as many deaths in the state (2,328) as cocaine, heroin, and methamphetamine combined (989).

One reason Vicodin is so popular is that it doesn't require doctors to write multiple copies of the prescriptions, as other opiate-based painkillers like morphine and oxycodone do, says Richard Kravitz, a professor of internal medicine at the University of California at Davis. That extra work is designed to prevent abuse. "The easiest way to get pain medication into someone's hands is Vicodin," says Kravitz. "It's more uniformly effective, and you can write it without needing triplicate copies of the prescription. It's the path of least resistance."
—*Elizabeth Lopatto*

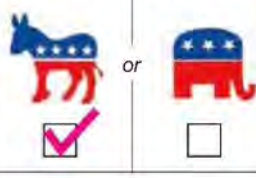




VICODIN: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; ILLUSTRATION: AL MURPHY

Popularity Face-Off

Democrat or **Republican**



Democrat 35.4%
Republican 31.8%

Bud or **Bud Light**



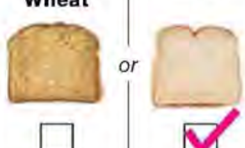
Bud Light 571 million
Bud 304 million
24-pack case

Cat or **Dog**



Cats 81.7 million
Dogs 72.1 million
But more households own dogs than cats

Whole Wheat or **White**



White bread 1.5 billion
Wheat bread 1.3 billion
Loaves

Beatles or **Stones**



Beatles 176 million
Rolling Stones 66 million
Total album sales

Colombia exported 1 billion-plus stems to the U.S. over the past year



Flower /
Rose

French explorer Samuel de Champlain brought the first cultivated roses to North America in the 17th century

With 1.8 billion stems imported for sale in the U.S. last year, roses are by far the most popular flower, according to the U.S. Agriculture Dept. That's almost enough to give a flower to one in every four people around the world (which would either spread goodwill or leave three-quarters of the planet feeling hurt and left out). The 1990s saw a virtual baby boom of rose varieties, with close to 120 hybrids now commercially available–up from a few dozen in the 1980s. "It's an extremely versatile flower," says Jennifer Sparks, vice-president of marketing at the Society of American Florists. —*Sommer Saadi*

RUNNERS-UP ❷ **Carnation** ❸ **Pompon** ❹ **Lily** ❺ **Baby's breath**

The next-best-selling lip cosmetic last year was lip gloss, followed by lip liner



Lipstick /
Revlon

ColorStay, ColorBurst, Super Lustrous–all popular choices from Revlon, America's go-to brand of lipstick. Over the past year, Americans spent more than $300 million to beautify their lips in supermarkets, drugstores, and mass merchandise outlets excluding Wal-Mart, according to SymphonyIRI Group, a Chicago market research firm. Nearly a third of that went to Revlon, which began applying itself to cosmetics in 1932 with an opaque nail polish. Its bestselling lipstick, a pinkish hue called SoftSilver Rose, retails for $7.99 —*S.S.*

ILLUSTRATION: KENT BARTON; KISS: ISTOCK; POPULARITY FACE-OFF: CORBIS (2), GETTY IMAGES (6)
POPULARITY FACE-OFF DATA: SYMPHONYIRI GROUP, RASMUSSEN REPORTS, MINTEL, U.S. CENSUS, NPD GROUP, RECORDING INDUSTRY ASSOCIATION OF AMERICA


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Country By Country

Worldwide Popularity Index

	Beer	Fast-Food Chain	Novel	Fruit	TV Show	Movie
U.S.	Bud Light	Subway	*The Lost Symbol* by Dan Brown		American Idol	
Canada	Budweiser	Tim Hortons	*The Lost Symbol* by Dan Brown		Survivor	
U.K.	Carling	Subway	*The Lost Symbol* by Dan Brown		Britain's Got Talent	
France	Kronenbourg 1664		*Twilight* by Stephenie Meyer		House	
Germany	Oettinger Original		*Twilight* by Stephenie Meyer		tatort	
China	雪花 Snow	KFC	*A Story of Lala's Promotion* by Li Ke		*Migrating West* A 52-part historical drama about the lives of merchant traders in China's Shanxi province	*
Japan	Asahi 生		*1Q84 (volume 3)* by Haruki Murakami		龍馬伝 Ryomaden	
Russia	Балтика		*Twilight* by Stephenie Meyer		Прожектор Перисхилтон Projector Paris Hilton	*
Brazil	Skol		*The Shack* by Wm. Paul Young		Passione	**
Mexico	Corona Extra		*Twilight* by Stephenie Meyer		Sortilegio	
Iceland	Víking	Subway	*The Girl with the Dragon Tattoo* by Stieg Larsson		Taggart	

LAMBERT & BUTLER, MARLBORO, MILD SEVEN, WINSTON: BLOOMBERG; DU MAURIER: BRETT POPPLEWELL; AVATAR: EVERETT, CORONA, FRUITS, SPORTS: GETTY IMAGES (12). CONTRIBUTORS: PENNY PENG, ANNA MUKAI, NIVEDITHA RAVI, STEPHEN MORRIS, STEPHEN T
RESOURCE CENTER, U.S. CENSUS, SOCIAL SECURITY ADMINISTRATION, BOX OFFICE MOJO, GOVERNMENT OF ALBERTA, BRITISH COLUMBIA MINISTRY OF HEALTH, CANADIAN PRODUCE MARKETING ASSN., SEO CONSULTANTS, SPORT MONITOR, CANADA'S PHYSICAL ACTIVITY I
INSTITUTE, BRASSEURS DE FRANCE, AMERICAN CANCER SOCIETY, OFDT, CTIFL, CCFA, L'OFFICIEL DES PRENOMS, BELIEBTE-VORNAMEN DE, DEUTSCHER ZIGARETTENVERBAND, CENTRALE MARKETING-GESELLSCHAFT DER DEUTSCHEN AGRARWIRTSCHAFT, STATCOUNT
YUM! BRANDS, ORICON, VÍDEO RESEARCH, BUNKA TSUSHIN, JAPAN'S MINISTRY OF AGRICULTURE, FORESTRY AND FISHERY, HAKUHODO, CENTRAL RESEARCH SERVICES, KNIZHNOE OBOZRENIE, RUSSIAN TELEVISION ACADEMY, KINOBIZNES SEGONYA, RUSSIAN FOOD AN
NATIONAL FEDERATION FOR VEHICLE DEALERS (FENEBRAVE), BANCO FATOR SA, IBGE AND AGRICULTURE MINISTRY, IPSON MARPLAN INSTITUTE, WWW.ANCINE.GOV.BR, SART DREAMAKER, AMDA, UNIVISION, 2000AGRO.COM.MX, MERCA2O.COM, BABYCENTER.COM.MX, N

Cigarettes	Song	Vehicle	Recreational Sport	Search Engine	Girl/Boy Name
	*Boom Boom Pow* by The Black Eyed Peas	 Ford F-150		Google	Isabella/Jacob
	*I Gotta Feeling* by The Black Eyed Peas	 Honda Civic		Google	Olivia/Ethan
	*I Gotta Feeling* by The Black Eyed Peas	 Ford Fiesta		Google	Olivia/Jack
	*Ça M'énerve* by Helmut Fritz	 Peugeot 207		Google	Emma/Lucas
	*Poker Face* by Lady Gaga	 VW Golf		Google	Mia/Leon
	*Mian Hua Tang (Cotton Candy)* by Zhi Shang Li He (Top Combine)	 BYD F3		Baidu 百度	The Chinese gov't would not release this information.
	*Far* by GReeeeN	 Toyota Prius		YAHOO! JAPAN	Rin/Hiroto
	*Believe* by Dima Milan	 AvtoVAZ Lada Prioria		Яндекс Найдётся всё	Anastasia / Aleksandr
	*Halo* by Beyoncé	 VW Gol		Google	Maria/João
	*Aqui Estoy Yo* by Luis Fonsi	 Nissan Tsuru		Google	Maria Fernanda/ Santiago
	*Uprising* by Muse	 Toyota Yaris		leit.is	Gudrun/Jon

*2012 topped the 2009 charts but only because of Avatar's late release
**Ice Age 3 topped the 2009 charts but only because of Avatar's late release

AYLOR, GREGORY VISCUSI, ALEXANDER WEBB, OMAR VALDIMARSSON, ANASTASIA USTINOVA, FRANCISCO MARCELINO, JOSE ENRIQUE ARRIOJA, DENIS MATERNOVSKY, CARLA SIMEOS. DATA: NIELSEN, EUROMONITOR INTERNATIONAL, USDA, AGRICULTURAL MARKETING MONITOR, UK TOBACCO INDUSTRY, THE GUARDIAN, WSJ, BRITAIN'S OFFICE FOR NATIONAL STATISTICS, SPORT ENGLAND, DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS, INSEE STATE STATISTICS, LIVRE/HEBDO/ISPOS, CNC, SNEP, MEDIAMETRIE, AT INTERNET ER GLOBALSTATS, DAS KRAFTFAHRT BUNDESAMT, KLACK.DE, BRAUWELT INTERNATIONAL, GUANGMING DAILY, BENESSE CORPORATIONS, ASSOCIATED PRESS, DANGDANG, CSM MEDIA RESEARCH, CHINA MOBILE, CCTV, CHINA ASSN. OF AUTOMOBILE MANUFACTURERS, D DRINKS MARKET, MUZ-TV, ASSN. OF THE EUROPEAN BUSINESS, ROSSPORT (RUSSIAN SPORTS AGENCY), LIVEINTERNET.RU, MOSCOW REGISTRAR OFFICE, BRAZIL'S CENTRAL OFFICE FOR COLLECTION AND DISTRIBUTION, CERTIDAO.COM.BR, VEGA MAGAZINE, BRAZIL'S ACION.COM, NOROESTE.COM.MX; NAVEGANDOLAWEB.COM, DJCONCEPT.COM.MX, TOYOTA ICELAND, CAPACENT GALLUP, SENA, STATISTICS ICELAND, ICELAND'S ORGANIZATION OF EMPLOYERS, MODERNUS, ICELAND'S NATIONAL AND OLYMPIC SPORTS ASSN., EDMUDSSON



Before the introduction of the Marlboro Man in the 1950s, the brand's slogan was "Mild as May"

Cigarette / Marlboro

When a brand dominates its market for 35 years, you might expect it to coast. Yet Marlboro, which has been the top-selling American cigarette since Gerald R. Ford was President and now controls 42.8 percent of U.S. cigarette sales–more than the next 13 brands combined, and an all-time high–is still pushing for a larger piece of a shrinking pie. (Cigarette consumption fell 31 percent from 1990 to 2007.) In January, cigarette maker Altria Group added a new version, Marlboro Special Blend (up to a buck less than Marboro reds), pushing the brand even further ahead of its largest rivals, Newport and Camel.

On average, Marlboro costs $5.50 a pack in the U.S., where the 126.5 billion Marlboros shipped last year were more than four times the 31 billion Newports shipped by Lorillard. Credit Suisse analyst Thilo Wrede, who rates Altria as "neutral," cautions that discounting may damage Marlboro's premium image at a time when penny-pinching is already shifting sales to rivals such as Reynolds American's discount Pall Mall, the fastest-growing of the major brands last quarter. Pall Mall claimed 7 percent of retail sales, up 1.8 percentage points from a year earlier. Discounting of Special Blend has attracted smokers who found other premium brands too pricey, according to Altria CEO Michael Szymanczyk. "We don't put a cap on its growth," he told analysts in July. "These major brands tend to last a long time if they're managed properly." —*Chris Burritt*

RUNNERS-UP ❷ Newport ❸ Camel ❹ Pall Mall ❺ Winston

The price of shrimp fell by about 50 percent between 1998 and 2002 because of more effective farming techniques

Fish / Shrimp



Yes, the FDA classifies shrimp as a fish. And yes, the former special occasion appetizer is now America's mainstay seafood. On average, Americans ate 4.1 pounds of shrimp in 2008, according to the National Fisheries Institute, beating canned tuna by nearly 50 percent. The crustacean has been king for nearly a decade; from 1980 to 2008 the amount of shrimp consumed by Americans nearly tripled. "It's the expanding availability and affordability," says the NFI's Gavin Gibbons. —*Sommer Saadi*

RUNNERS-UP
❷ Canned tuna ❸ Salmon ❹ Pollock ❺ Tilapia

Plane / Cirrus SR22



Not many people bought private planes last year. For those who did, the No. 1 choice was the Cirrus SR22. More than 400 units shipped out in 2008, almost double the runner-up, the Cessna 172S Skyhawk SP, according to the General Aviation Manufacturers Assn. The SR22 is a recreational prop plane, not a CEO's jet; it includes a parachute system in the tail in case of engine failure. The SR22 starts at just below $400,000 and can cost as much as $700,000 for a fully outfitted model —*S.S.*

ILLUSTRATION: AL MURPHY; SHRIMP: PLAMEN PETKOV

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Delta and its affiliates account for ¾ of the air passenger traffic at Hartsfield-Jackson

Airport

Atlanta

If you travel, there's a good chance you're going to Atlanta. The city's Hartsfield-Jackson airport is the busiest in the world, with 88 million passengers last year, a third more than the distant second, London's Heathrow. The hometown hub for Delta Air Lines, Atlanta's 2.5 million-square-foot terminal complex was designed in the 1970s to accommodate 55 million passengers a year. The airport has attracted as many "customers" as it has by competing on price, charging less to rent terminal space and gate access than competing hubs. According to the airport's own numbers, airlines flying to Atlanta pay about $5 per passenger, less than half the $11 charged by Chicago's O'Hare and about a third the $15 charged by San Francisco. At the high end, New Jersey's Newark Liberty airport charges about $19 per passenger.

Competing on price usually means skimping on service, so whether you will enjoy your visit to Atlanta is another matter. Atlanta ranked 47th out of 195 airports globally in a 2010 passenger survey by London-based Skytrax. CNN news piped through Atlanta's overhead speakers is "loud and inescapable," and there is "even less opportunity for peace and quiet" than most airports, one passenger wrote on Skytrax's customer review website. No. 1 in survey popularity, as opposed to traffic, was Singapore's Changi Airport. Travelers to Singapore can get a haircut, rent a bed for a couple hours, take a swim, or stroll through butterfly or orchid gardens. "Customers tend to favor airports that are comfortable, clean, well-staffed, quiet, and pleasant to wait at between flights, and that makes Singapore a perennial favorite," said Edward Plaisted, chief executive officer of Skytrax. "Atlanta is very much a function airport, not a comfort airport." —*Mary Jane Credeur*

RUNNERS-UP

❷ Chicago O'Hare ❸ Los Angeles International ❹ Dallas/Fort Worth ❺ Denver

AIRPLANE: TETRA IMAGES/CORBIS
SOURCE: BUREAU OF TRANSPORTATION STATISTICS

Advertisement

One innovation continues to prove it has "sticking power:" the Post-it® Note from 3M Company. Ever since 1980, when the original *Canary Yellow* squares hit store shelves, the Post-it® Note has been an indispensable organizational tool in offices, homes, schools and everywhere in between. We're proud to have been a part of your life for the last 30 years.

Some ideas stick!

Post-it® Note The History

1968
Dr. Spencer Silver, Senior Scientist at 3M, discovers a unique, repositionable adhesive. It's a breakthrough solution in search of a problem.



1974
Another 3M scientist, Art Fry, tires of losing his place in his church choir hymnal. He remembers Silver's "sticky but not too sticky" adhesive, and the light bulb turns on.



1977
Fry produces enough Post-it® Notes to supply 3M's corporate headquarters, and 3M employees are soon hooked.

1978
During the "Boise Blitz," a test marketing campaign, 90% of consumers who try the product say they'll buy it. Post-it® Notes are given the green light.



1979
Post-it® Notes are introduced in 11 Western states. Consumers ship the notes to their co-workers in cities where the product is not yet available.



1980
Post-it® Notes are introduced nationally in the United States. Lee Iacocca and other Fortune 500 CEOs write to say how much they love the product.

1981
Post-it® Notes are introduced in Canada and Europe.



1990
Post-it® Notes celebrate their 10th anniversary and are featured on many lists of top consumer products of the decade.

Post-it® Brand

1999
There are more than 600 Post-it® Products. The now famous adhesive is also used on several other 3M products.

2010
Post-it® Notes celebrate their 30th anniversary with a multi-faceted collection of more than 1,000 products and tools sold in over 150 countries worldwide.

30 years Keep it Simple.



Gum /

Orbit

Sugarless chewing gum accounted for nearly two-thirds of the $1.8 billion gum, mint, and breath-freshener market in 2009, according to researcher Mintel International Group. The gum was first developed in 1944 by Wm. Wrigley Jr. Co., which was bought by Mars in 2008. Orbit has differentiated itself with its crunchy coating, box packaging, and a higher-than-average price tag, which helped make it into an iconic brand with 2009 sales of approximately $206 million, according to Mintel. Last year, Orbit launched its latest innovation, the Orbit Mist product line, which the company says contains "micro-bursts to deliver a hydrating sensation" and comes in flavors including mango surf and raspberry lemon dew. Trident, which once ruled the gum market, now sits at No. 2, with $146 million in 2009 sales. It aims to topple Orbit with a new product called Trident Layers, which sandwiches two flavors together, such as wild strawberry and tangy citrus. —*Esmé Deprez*

In addition to Orbit, Wrigley also makes the gum brands Big Red, Juicy Fruit, Freedent, Extra, Eclipse, Big League Chew, and React, a "groundbreaking sugar-free stick-gum product" that comes in flavors called Rain, Solstice, and Zing

RUNNERS-UP **❷ Trident ❸ Wrigley's Five ❹ Wriglely's Extra ❺ Wrigley's Eclipse**

Parenting Book /

What to Expect When You're Expecting



What to Expect When You're Expecting was first published in 1984. Now in its fourth edition, with over 14 million copies sold, this pregnancy guide has spent nearly 500 weeks on *The New York Times* best-seller list in the paperback advice category; seven editions and sequels currently reside on Amazon's parenting top-100 list. —*Sommer Saadi*

GUM: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; BABY: GETTY IMAGES



Against Popularity

Roben Farzad

To Hell with The Herd

'The embedded problem with chasing popularity," says Harvard Business School marketing professor Youngme Moon, "is that you're not the only one chasing it." The speed at which trends occur and die out, she says, has vastly accelerated thanks to social media and globalization. In her book *Different: Escaping the Competitive Herd*, Moon duly argues for what she calls "reverse positioning." The tenets: Simplify when everyone else is tacking on options. Give back to customers when competitors are taking back. Resist the urge to succumb to feature-itis. "Reverse brands say no where others say yes," writes Moon, "but they also say yes where others say no."

As a case study, Moon points to the prevailing marketing wisdom of the airline industry in the 1970s and 1980s, when American Airlines, United, and the rest of the majors played up all the service and amenities that a full-fare coach class ticket bought you. It was, she says, "an arms race" to advertise sumptuous meals, warm cookies, a hot towel for your face. Enter JetBlue in 2000, with its second-tier airports and no-meal, low-cost structure juxtaposed with leather seats, TV, and biscotti. Low-cost with the right frills became all the rage, forcing the majors to suddenly take away everything but the seat cushion to remain competitive. "Once you look around and find you and your competitors all doing the same thing," says Moon, "it's very hard to extricate yourself. And if you do, your customers feel betrayed—and you look like an idiot."

Or recall how Yahoo!, AOL, and MSN once chased portal dominance by adding ever more functionality—shopping, search, weather, e-mail—to every white inch of their home page. Then, as if out of nowhere, along comes Google, with its decidedly uncluttered look but superior search technology—a recipe that it has defiantly stuck to since its beginnings. AOL, MSN, and Yahoo have been shifting around features ever since, with diminishing returns.

Dog

Labrador



Labs were initially used in work alongside fishermen, helping to pull in nets and catch fish that escaped from fishing lines

Labrador retrievers are the most popular purebred dogs in the country, according to American Kennel Club statistics. The family-friendly pooches have reigned for the last 19 years, though German shepherds are gaining favor–they overtook Yorkshire terriers for No. 2. Golden retrievers and beagles hold the fourth and fifth spots. Of the top five, only the Yorkie is not used for law enforcement and homeland security tasks such as border patrol, bomb and narcotics detection, and searches for missing people. —*Caroline Winter*

iPhone App

Type n Talk

On the first of this month the most popular application in the free category of the Apple app store was Type n Talk. You type a word or phrase, and the iPhone speaks it back to you in a robotic voice. It was created by Jirbo, a Los Angeles-based software company that has become something of a hit factory, turning out 45 games that have appeared in the iTunes top 100, like Paper Football and Marble Mash. "This app has had its own special little ride," says Jirbo CEO Jonathan Zweig. Among iPhone apps that cost money, one application, a disturbingly addictive 99¢ game called Angry Birds, has topped the charts for six months. —*Arik Hesselдahl*



DOG: GETTY IMAGES; ILLUSTRATION: AL MURPHY



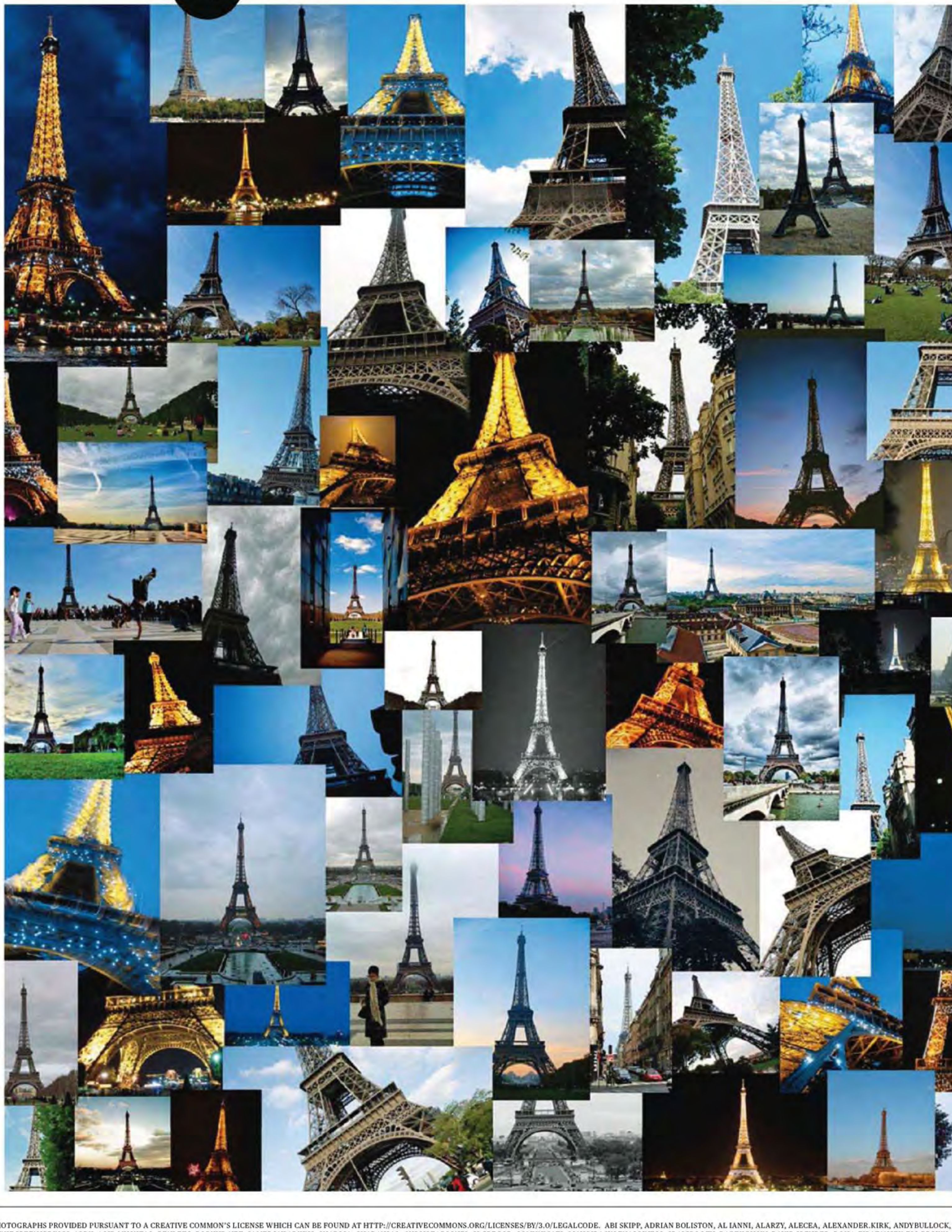
The fact that it's colorless, odorless, and flavorless has kept vodka the liquor of choice for U.S. consumers. Store sales of vodka—which can be made from nearly anything but is most often distilled from grain—topped $1 billion in the past year, beating whiskey, rum, and tequila. "Vodka is perceived as low-cholesterol, has no breath effects, is mixable, and is part of that whole *Sex and the City*, women-with-fancy-drinks phenomenon," says Thomas Russo, portfolio manager for investment firm Gardner Russo & Gardner in Lancaster, Penn.

The top brand in the category is the bottom-bar-shelf staple Smirnoff, which is produced by London-based Diageo and made up more than a fifth of industry vodka sales, according to data from researcher SymphonyIRI Group (their analysis doesn't include Wal-Mart Stores or sales at restaurants and bars). Smirnoff sales jumped 5 percent in the year ending June 13, helped by a 2.5 percent price cut per case. The closest challenger, Pernod Ricard's Absolut, sells less than half as much.

Diageo revamped the Smirnoff brand in 2003 with a more shapely bottle, a stylish label, and marketing designed to tell young people this was no longer their father's vodka. Then, in 2005, *The New York Times* threw Smirnoff into a taste test of higher-priced vodkas—and it won, giving the brand bragging rights as a quality, yet affordable spirit. "It caused people to look down two or three shelves," says David Tapscott, Smirnoff's brand director.

Smirnoff also benefits from its introduction around a decade ago of Smirnoff Ice, a flavored malt liquor like a wine cooler. Though not made with vodka, the citrusy drink ingratiated the brand with new consumers, including beer drinkers. However, Smirnoff shouldn't get too comfortable. According to David Ozgo, chief economist for the U.S. Distilled Spirits Council, "There's been a resurgence in general interest in whiskey." —*Duane Stanford*

JACK DANIEL'S, JAMESON, SMIRNOFF, ABSOLUT: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; ILLUSTRATION: AL MURPHY



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Worldwide Vacation

France

If the French seem irritated by foreigners, they have good reason. Their country is the world's most popular travel destination by far. For each of the past five years, France has attracted at least 19 million more tourists than its closest competitor, according to U.N. World Tourism Organization statistics. Last year 74.2 million visitors streamed into the land of supermodel First Ladies and Camembert—and that after a 6.3 percent dip caused by the financial crisis. Being the most popular doesn't equal bringing in the most cash, however. The U.S. and Spain—which battle back and forth for the No. 2 and No. 3 favored spots—both earn more from international tourism than France does. Last year the U.S. made $94.2 billion and Spain $53.2 billion, while France saw $48.7 billion in tourism revenue. When it comes to spending on travel, Germans dominate: In 2009 the country of 82 million spent $80 billion on travel. (And Paul Krugman claims they're not doing enough to stimulate the global economy.) Americans, in second place, spent $73 billion. —*Caroline Winter*

RUNNERS-UP

❷ U.S ❸ Spain ❹ China ❺ Italy





KENNER116, KERRYVAUGHAN, KIMDOKHAC, LARRY JOHNSON, LAUREN MANNING, LORKAN, LTDAN, MACSURAK, MARTY PORTIER, MATT FROM LONDON, MATT SEPPINGS, MATT.HUTCHINSON, MATTGDAWSON, MAVERIC2003, METAPHOX, MICHAL OSMENDA, MINAMIE'S PHOTO, MK B, MOONLIGHTBULB, MOONSOLEIL, NDRWFGG, NEPMET, OLIVER MALLICH, PALINDROME6996, PRAGSTER, PRAKHAR, PSD, RACHELH_, RE-ALITY, REDNUHT, ROBERTPAULYOUNG, ROSS2085, RP72, S BAKER, SMEMON87, SMLP.CO.UK, SPACEMANPIRATE, STEVECOUTTS, TANVEER CHANDOK, TERRAZZO, THE YES MAN, THELASTMINUTE, THIJS KNAAP, TILEMAHOS EFTHIMIADIS, TINOU BAO, TOMBREAM07, TUKANUK, VIOLAINE BAVENT, VIZZZUAL, VL8189, WILL PALMER, WOUTER KIELSOURCE U.N. WORLD TOURISM ORGANIZATION



A recent episode involving a cool cucumber netted 11,000 viewer comments on YouTube

Web Series

The Annoying Orange

On Oct. 9, 2009, an independent comedy producer in California named Dane Boedigheimer uploaded a video onto YouTube featuring a mischievous orange goading an irritated apple. "Hey Apple, you look fruity," says the orange. "Yeah, that was hilarious," says the apple.

Ten months later, *The Annoying Orange* is the most popular scripted Web series so far in 2010, according to Visible Measures, an independent Web video measuring firm. Its 41 episodes have been viewed more than 200 million times.

The semi-animated series raggedly superimposes human mouths on fruits and vegetables. The eponymous star sits on a kitchen counter and badgers the foods around him. He calls them names, makes bad puns, blows a vuvuzela, watches gleefully as his peers are carved up to be eaten, and punctuates it all with a crazy, nasal cackle. The brief episodes are Gilbert Gottfried grating–and totally absorbing.

While some observers are baffled by the series' success, *The Annoying Orange* employs the same age-old formula as many of the most popular children's cartoons of yesteryear. Annoying Orange, like Woody Woodpecker before him, is the ultimate children's antihero, blissed out on bad behavior, hammering away at everything around him, laughing in the face of the world, and flouting the rules of adult decorum with total impunity. —*Felix Gillette*

RUNNERS-UP ❷ *Key of Awesome* (26.4 million views) ❸ *Happy Tree Friends* (19.2 m) ❹ *Smosh* (15.2 m) ❺ *Fred* (14.8 m)

Peanut Butter

Jif

It's not just choosy moms who choose Jif. The 52-year-old brand, owned since 2002 by jam maker J.M. Smucker, has been the top-selling peanut butter since 1981. The former Procter & Gamble product has kept up with ever-changing consumer tastes and trends by launching new versions, such as Extra Crunchy in 1974, Simply Jif with lower sugar and sodium in 1991, reduced fat in 1995, and the portable Jif To Go in 2006. The "Choosy Moms" tagline, which made its debut in 1968, has been refreshed as well in ads featuring dads, grandparents, and working mothers. All that helped Jif's sales at U.S. retailers rise 3 percent, to $317 million in 2009, according to market researchers SymphonyIRI Group in Chicago.

Meanwhile, Unilever's Skippy, the longtime No. 2, has increased its market share to 17.2 percent, from 16.3 percent three years ago, by touting its all-natural varieties, including a honey-flavored line that was introduced in March. Skippy, first sold in 1933, also benefits from ownership of the coveted peanutbutter.com Internet domain, where visitors can learn how to make "peanut butter BLT" wraps. —*Matt Boyle*

RUNNERS-UP ❷ Skippy ❸ Peter Pan ❹ Smucker's ❺ Smart Balance



JIF: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; ANNOYING ORANGE: YOUTUBE (6)

Barrett Sheridan

Computers said Michael Jackson's *Billie Jean* would be a dud



Hit Detector

Why algorithms might not be any worse than humans at picking the Next Big Thing

In the early 2000s, a handful of entrepreneurs became convinced that machines could mimic human taste and effectively predict popularity. This was a revolutionary notion, suggesting that the talents of legendary tastemakers—the Harvey Weinsteins and Clive Davises—could be replicated by silicon and algorithms. In melodramatic terms, the idea represented an escalation in the war between humans and machines, furthering the debate over what skills and faculties, if any, are unique to homo sapiens.

With each passing year, the humanists appear to lose ground. In 1997 an IBM supercomputer named Deep Blue beat the world's best chess player, Garry Kasparov, in a six-game match. Kasparov later wrote off Deep Blue and its relatives as "brute-force programs" that played chess with no creativity, no concern for "hundreds of years of established theory."

Kasparov would have had little patience for the would-be hit predictors, who, for the last decade or so, have tried to do for art and culture what Deep Blue did for chess. Generally, they distilled a piece of content to its numerical essence. Songs were easiest, because their underlying structure is mostly math. Companies and research centers such as The Echo Nest and the International Society for Music Information Retrieval built up databases and correlated variables like pitch, tempo, and melody. By correlating them with historical information on how the song fared in the market, the hit predictors could make an educated guess about whether a brand-new song stood a chance of topping the charts.

One company trying to do this was called Hit Song Science, founded in Barcelona in 2001. Hit Song Science had some early success. In 2002, as the team was fine-tuning its algorithms, HSS determined that 8 of the 14 tracks on an album by a then-obscure singer had genuine hit material. That album, *Come Away with Me* by Norah Jones, subsequently sold more than 10 million copies.

The same year, an executive at BMG who was promoting a new band, Maroon 5, got in touch with Mike McCready, one of HSS's co-founders. The band's single, *Harder to Breathe*, was going nowhere, and the BMG executive needed help. Running the album through his software, McCready determined that another track, *This Love*, had much greater hit potential. The executive sent the new single to radio stations, and Maroon 5's album, *Songs About Jane*, went triple platinum.

As a business, HSS was not quite as successful. Many predictions turned out to be duds. The algorithms rated Michael Jackson's *Billie Jean* a flop and a six-minute instrumental a surefire hit. "We discovered we couldn't make the bold kind of claims we were hoping we could make with this technology," says McCready, who left the company in 2006. He now runs a website called Music Xray that helps match music executives and musicians. "The technology might get there someday, but it's not there now."

The number of different possible chess games is 10 to the 120th power—a staggering number, and a surmountable one, if you have the right "brute-force programs." Popularity, by contrast, is a social phenomenon. Making predictions without accounting for human interaction and influence is like programming a computer to play chess and ignore the queen.

Duncan Watts knows this better than anyone. Now Yahoo!'s chief research scientist, Watts was a professor at Columbia Uni-

JACKSON: DAVE HOGAN/GETTY IMAGES



Algorithmic wizardry can't yet spot the next *Harry Potter*

versity in 2006 when he and two graduate students performed a study that confirmed what marketers have long known: Humans are deeply susceptible to persuasion, and there's no way to predict their tastes unless social factors are considered. In the study, the researchers asked 14,000 people to rank songs by bands they'd never heard of. Some of the participants had no information to go on other than their own taste; others were grouped into pools and shown what the rest liked. What the researchers found is that there's no such thing as "intrinsic" quality: Each pool favored a different set of songs, and reviewers were heavily influenced by the rankings of others when they had access to them.

For Watts, one of the lessons of this experiment is that "for most of the things we care about, you can't predict success. You can take a lot of historical data and attributes and show that, on average, certain attributes do better. Books about boy wizards do better than books about nonlinear equations, for instance. The problem is, there are many hits that have those qualities of success. But there are plenty of non-hits that do, too." Knowing the difference between the successful and unsuccessful boy-wizard book is not yet a computable skill; in that gulf is where art, marketing, and social influence work their magic.

Many would-be hit predictors weren't discouraged by this finding; they adapted. Thanks to Twitter, Facebook, Digg, and more, there is a sudden surfeit of social data. Even a simple Google search contains social cues about the buzz around a movie, a product, or anything else people care about. A number of recent studies have used this insight to refine the prediction of popularity. Earlier this year, Bernardo Huberman, a senior research fellow at Hewlett-Packard, analyzed Twitter posts about unreleased movies and came up with surprisingly good predictions of their opening weekend gross. (His model predicted that *Dear John*, the Amanda Seyfried movie from this February, would gross $30.71 million on opening weekend. It took in $30.46 million.) Other studies by researchers at HP, the University of Southern California, and even Watts himself have used search and social data to predict, with impressive accuracy, the popularity of YouTube videos, Digg articles, new video games, and more.

A New York-based company called BuzzFeed extends the idea that popularity can be predicted across the Web's entire range of content. It culls data from more than 100 partner sites, including The Huffington Post and AOL, which together reach 150 million unique visitors a month, according to Quantcast, and then posts items it anticipates will go viral—everything from cat videos to celebrity gossip. BuzzFeed makes its predictions based on analysis of how much traffic comes from sharers. If a blog post gets 1,000 hits, for example, and only 200 of those come from home page links, that means those 200 visitors have shared the post with 800 other people—and some of those 800 people are likely to share it with others. BuzzFeed's algorithms calculate this ratio and make a prediction: This will go viral.

In terms of science, BuzzFeed is a bit of a kludge, a tacit acknowledgment of the limits of popularity prediction. No attempt is made to assess the intrinsic quality of the blog posts and videos that its servers track. It doesn't isolate the variables and assign them values, as Hit Song Science tried with the timbre of Norah Jones' voice. And how could they? Who knows why one video of a kitten falling asleep attracts 10 million views on YouTube, while another, nearly identical video gets 1,000? BuzzFeed is concerned only with popularity as a social phenomenon. It's like weather forecasting. BuzzFeed takes an early satellite picture of how the Web responds to, say, the news of Lindsay Lohan's arrest or zoo footage of newborn tapirs, then assesses which of these tropical depressions could turn into a hurricane.

Watts, who is generally quite skeptical of hit prediction, serves as an adviser to BuzzFeed. The system works, he says, "by being very good at noticing what is taking off organically and then feeding the flames." It is on this latter bit that BuzzFeed makes its money. By understanding so well how things become popular, the company can help clients *make* things popular. A recent case in point is DonQ rum, which had hired a firm called Undercurrent to build brand awareness with an elaborate Web feature called LadyData. It presented more than 200 attractive young women answering pressing questions that demographically appropriate men (aged 21-35) might ask, like "When is a mustache a fail?" The problem was how to grab the attention of the men who might first visit the site and then buy the rum.

BuzzFeed's algorithms churned through the LadyData site, singling out the pieces that generated the most sharing. Those were seeded across the Web on BuzzFeed's home page and on content-sharing sites like StumbleUpon and Digg. Within two months, the DonQ site was pulling in more visitors than those of its much bigger competitors, Captain Morgan and Bacardi, combined. And in the first six months of 2010, DonQ's sales were up 55 percent. That may not be as cool as predicting the next Norah Jones, but for rum manufacturers—and kitten videographers—it's progress. Ⓑ

HARRY POTTER: EVERETT COLLECTION



Orthopedic Surgery /

Knee

Orthopedic surgeries include anything to do with the meeting of muscle and bone, but it is the knee that is getting the most attention from orthopedists, for two seemingly contradictory reasons: Americans are getting fatter, and more are playing sports. Too much stress applied to the knee cartilage leads to an inflammation known as osteoarthritis. Whether the cause is extra pounds, strenuous exercise, bad genes, or simple wear and tear, arthritis erodes this cushion, causing the shin and thigh bones to grind against one another.

Close to 750,000 knees are replaced annually, 50 percent more than five years ago. The number is projected to double by 2015, according to a study published in the *Journal of Bone & Joint Surgery* in 2007. Total knee replacements—swapping a metal knee joint and plastic cartilage for bone and connective tissue—beat out total and partial hip replacements for the top spot by almost two to one, according to federal statistics. One reason is that demographics are trending younger. "My average patient now is around 60 years old," said Dr. John Callaghan, president of the American Academy of Orthopaedic Surgeons in Rosemont, Ill. "A decade ago it would have been someone closer to 71." Aetna estimates that the average knee replacement surgery costs around $58,000. —*Pat Wechsler*

Chip /

Lays



With nearly a billion dollars in annual sales, Lay's market share dwarfs that of its rivals, according to SymphonyIRI Group. Founded in 1932 in Nashville, Tenn., by Herman Lay, the brand went national in 1965, the year parent company Frito-Lay merged with Pepsi to form a food and beverage giant that uses its size to command space on the crowded snack shelf.

Competitor Kettle Foods is on the ascent, thanks to high-end chip flavors like Spicy Thai and New York Cheddar. Sales last year totaled $250 million from 12 countries. In February, Diamond Foods bought Kettle for $615 million, but compared with Lay's, Kettle is just one chip in the bag. —*Matthew Boyle*

RUNNERS-UP ❷ **Wavy Lays** ❸ **Ruffles** ❹ **Pringles Super Stack** ❺ **Utz**

Popularity Face-Off

Chocolate		Vanilla
	or	
☐		☑

Vanilla 29%
Chocolate 14%
Share of in-home consumption

Paper		Plastic
	or	
☐		☑

Plastic 33 billion
Paper 10 billion
Plastic bag use 2008

Desktop		Notebook
	or	
☐		☑

Notebook 74%
Desktop 26%
U.S. computer sales 2009

Coffee		Tea
	or	
☑		☐

Coffee 111 servings
Tea 85 servings
Annual per capita 2009

Burial		Cremation
	or	
☑		☐

Burial 63.2%
Cremation 36.8%
2009

ILLUSTRATION: KENT BARTON; CHIPS: TOM SCHIERLITZ FOR BLOOMBERG BUSINESSWEEK; POPULARITY FACE-OFF: ALAMY (2), GETTY IMAGES (7)
POPULARITY FACE-OFF DATA: NPD GROUP, CALIFORNIA INTEGRATED WASTE MANAGEMENT BOARD, NPD GROUP, CREMATION ASSOCIATION OF AMERICA

Arik Hesseldahl

Popularly Unpopular

Popularity doesn't always equal affection. Take Facebook. Five hundred million people use it, but a survey conducted by ForeSee Results found that among 30 websites it tracks, Facebook ranked second from the bottom for customer satisfaction. It was also among the lowest 5 percent of all 223 companies ForeSee tracks.

Perhaps it's a variation on the concept of "satisficing." The word "satisfice," coined in 1956 by the Carnegie Mellon economist and psychologist Herbert Simon, combines the words "satisfy" and "suffice," and is meant to describe how consumers make choices following a path of least resistance. In the case of social media, you go where your friends are.

Facebook isn't the only satisficing option out there. The most popular smartphone in North America is Research In Motion's BlackBerry. According to research firm Gartner, it still commands 41 percent of the smartphone market, vs. 22 percent for Apple's iPhone. Yet a survey by research firm ChangeWave Institutional Research found that only 30 percent of BlackBerry owners were satisfied with their device, vs. 55 percent two years ago.

Drops in satisfaction surveys can be reversed, and once-popular items can become popular again. After all, what technology product has been more universally used and loathed than Microsoft Windows? A May 2010 survey by ForeSee found that after a period of decline, more users are happier with Windows in 2010—76 percent—than in any previous survey period. If Microsoft can turn it around, anyone can.

Chevy invented the Camaro in 1967 to mimic—and compete against—the Ford Mustang

Sports Car

Camaro



In the race between Ford's Mustang and General Motors' reborn Chevy Camaro, the Camaro has pulled slightly ahead for the first time since 1986. Through July of this year, 53,864 Camaros were sold, vs. 47,524 Mustangs. The Camaro, killed off in 2002, was reintroduced in April 2009, and its new-found success may owe as much to built-up demand as to retro styling and a cameo in the latest *Transformers* movie, in the role of the yellow "autobot" Bumblebee.

"The pony-car wars are definitely back on," says Ford chief engineer Dave Pericak, whose first car was a Mustang GT convertible. GM is offering a Camaro convertible next year. Ford is beefing up its engines and boosting fuel efficiency, claiming 31 mpg on the highway for the V-6 Mustang. "The Camaro came out with a sexy new design that made the Mustang look old," says analyst John Wolkonowicz, who worked on Mustangs in the 1990s as a design consultant. "Now Ford responds with new engines to keep the battle going." —*Keith Naughton*

RUNNERS-UP ❷ Mustang ❸ Dodge Challenger ❹ Mini Cooper ❺ VW GTI

Job

Shop Clerk

The Bureau of Labor Statistics is brutally honest describing the job of retail salesperson in its 2010-11 *Occupational Outlook Handbook*: "Advancement opportunities are limited," workers "often stand for long periods," and many "work evenings and weekends, particularly during peak retail periods." Then there's the pay: a 2009 annual median of $20,260, 61 percent of that for all jobs. Still, it's the most popular job in America, based on the 4.2 million people who were being paid to do it in May 2009, when the BLS conducted its survey. Next are cashiers (3.4 million), general office clerks (2.8 million), food preparation and serving workers (2.7 million), and registered nurses (2.6 million). Eyeing the list for jobs that sound more fun, we find bartenders (490,000 being paid for the work at survey time), actors (40,000), athletes and sports competitors (14,000), and models (1,510). Then again, most of us lack the cheekbones to model or the jump shot to play in the NBA. As a means to a weekly paycheck, retail salesperson really does deserve its No. 1 ranking. —*Peter Coy*



BANANAS: DWIGHT ESCHLIMAN FOR BLOOMBERG BUSINESSWEEK; BAGS: CORBIS
DATA: EDMUNDS.COM



Roughly 91 metric tons of bananas are grown each year. Using an average weight of 126 grams, that equals 720 billion bananas, or more than 107 per capita

Item at Wal-Mart

Banana

Wal-Mart, which registered $405 billion in sales last year and is the largest retailer in the world, sold more bananas than any other single item.

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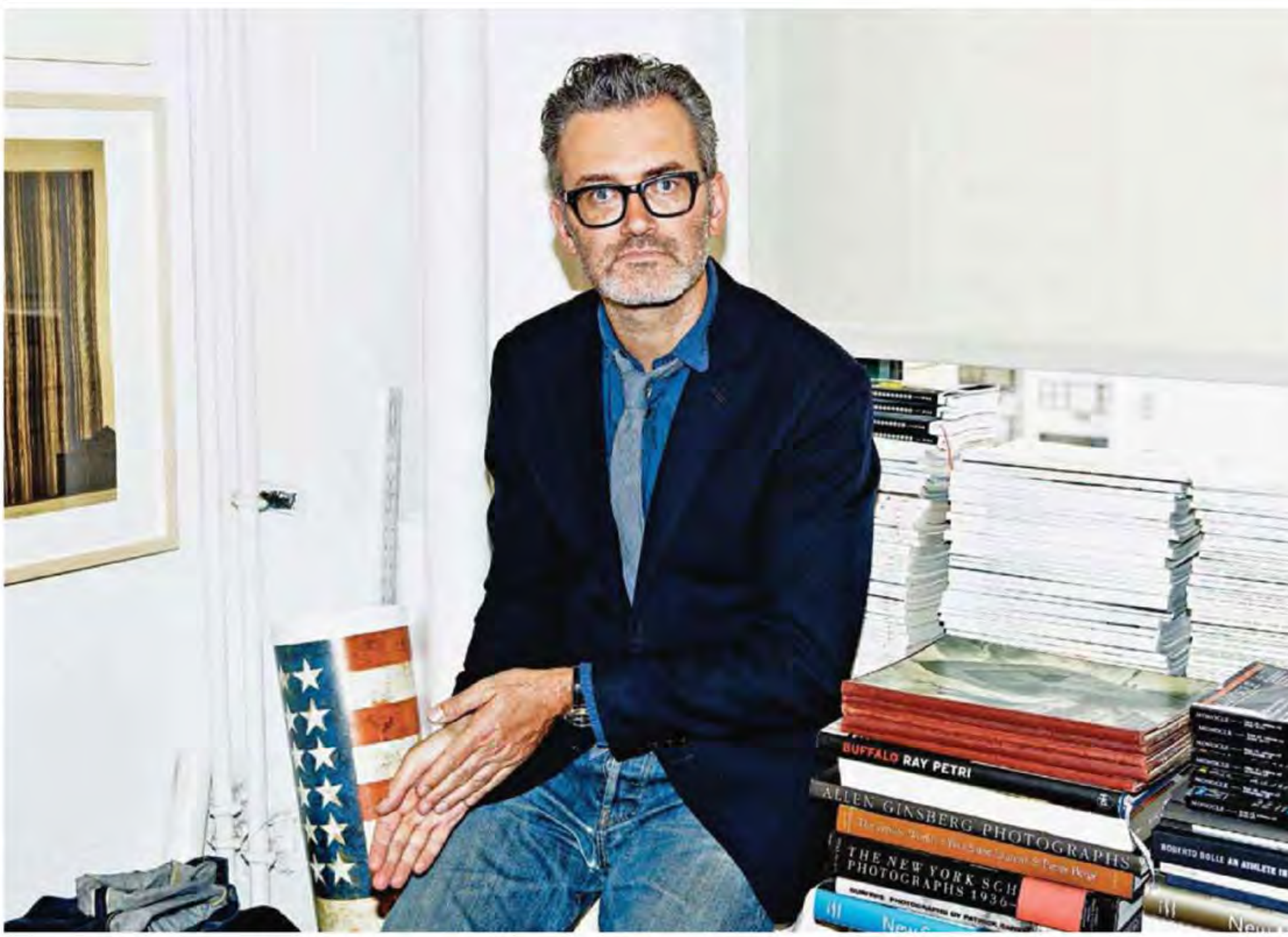
Driving golf balls in the Himalayas. Page 92

Hotel Perks & BlackBerry & Art & Snooki

Etc.

Why is a former Deloitte consultant buying up cows? Page 95





Rewriting the Preppy Handbook

Through dozens of innovative partnerships, Frank Muytjens has turned J.Crew into a leading voice in men's fashion. *By Joe Pompeo*

Photograph by Guido Vitti

TOP: FUSE/GETTY IMAGES

Etc. Fashion

Frank Muytjens, head of men's design for J.Crew, emerges from behind a partition with a handsome model he's just fitted in a dark gray T-shirt. The model walks and poses for about 40 J.Crew designers, store managers, and marketers, all of whom are packed into a showroom at the company's 150,000-square-foot downtown Manhattan headquarters where Chief Executive Officer Millard "Mickey" Drexler can sometimes be seen riding his bicycle. Drexler, the former CEO of Gap, is wearing jeans and a light blue button-down shirt with rolled-up sleeves. He clutches a BlackBerry in his right hand and leans back in an office chair. This is J.Crew's Spring 2011 Men's Finalization meeting, where the designers and merchants show off next season's fashions for the boss. As the model approaches, he and Drexler bump fists.

"So this is a slim fit?" asks Drexler. Muytjens (pronounced "MOW-jens) nods. "This is a pocket T," Drexler says. "It's a cheeseburger, not just a hamburger. So show me the cheeseburger! I know it sounds weird, but. ..." His team lets out a collective chuckle. "Do you realize what we've just done? We're reintroducing a slim, pocket T. Frank, am I missing something?"

"Nope," says Muytjens with a grin.

Drexler, 65, has long been admired for his obsessiveness, and in Muytjens, 50, he has found his ideal employee. Clad in a vintage Japanese work shirt and perfectly weathered 10-year-old Levi's cuffed over J.Crew's own brown Sperry Top-Siders, Muytjens is tall and slim with a silver pompadour. He grew up in Holland and moved to New York in 1994 to establish himself as a designer. After working at Polo Ralph Lauren for eight years, he landed at J.Crew in 2004. In 2008 he took over as head of men's design. Now he's leading the brand's transformation—a gradual updating and upscaling of its preppy look that began when Drexler joined the company in 2003.

Under Muytjens, J.Crew has responded to current trends without alienating casual shoppers

The men's fashion landscape has long been dominated on one side by luxury brands, such as Prada and Gucci, that intimidate casual shoppers. On the other side are less expensive alternatives like Banana Republic that no longer seem au courant. J.Crew has emerged in this void as the merchant of a new style that bridges work and leisure, youth and age, vintage and contemporary, gay and straight. "Muytjens understood that men don't want to be just one thing and then learned how to provide it," says Ned Martel, editor of *The Washington Post*'s style section. "Anyone in an office cares about how they look, even if their sartorial position is 'I don't care about how I look.'"

Under Muytjens, J.Crew has responded to current style trends—Americana, work wear, slimmer fits—with clothes that come at reasonable price points and don't alienate shoppers. (Most J.Crew suits run about $600.) "Our mission," Muytjens says, "is to make it easier for a guy to shop in our stores. Not more challenging." At the same time, he has adopted Drexler's attention to detail and desire to go for the cheeseburger, as it were. "I don't think many retailers are focusing on the fashion aspect for guys the way J.Crew is," says Christine Chen, a retail analyst at the investment bank Needham & Co.

Menswear accounts for less than half of J.Crew's net retail sales; in the months of April and May, it made up just 37.7% of its national dollar share. However, the rate at which J.Crew's men's operation has been expanding suggests that it will be a growth area for some time to come. "The biggest opportunity for them is in the men's business," says Marshal Cohen, chief retail analyst at market research firm NPD Group. "They've recognized that over the last few years, no one's had

Best Foot Forward

By teaming up with outside brands, J.Crew has updated its preppy look, offering styles at an array of price points—even when it comes to boots.



Quoddy Suede Chukka Boot, $275

Red Wing Rugged Classic Boot, $225

Alden Cap Toe Cordovan Boot, $595

Sperry Top-Sider Original Suede Chukka Boot, $125



Before Drexler's arrival, J.Crew was heavy on flannel

more competition than the women's market. So they built stores showcasing their growth opportunity in the men's." It's already paying off. J.Crew made $44.7 million in the first quarter of 2010, up from $20.4 million over the same period a year ago.

The company opened its first men's-only shop in August 2008, not long before Muytjens was promoted to menswear chief. Called The Liquor Store, it's a cozy, dark-paneled, antique-strewn boutique named for the bar that previously occupied its Tribeca storefront in Manhattan. A few months later the company opened its second in New Jersey's Westfield Garden State Plaza mall. A third followed in May 2009 in Manhattan's SoHo. Although the company declines to provide sales figures for the stores, Drexler told investors on a May 27 earnings call: "We're beyond thrilled with the performance of our stand-alone men's stores." A fourth is scheduled to open later this month in a two-floor Madison Avenue location.

Much of J.Crew's recent success in menswear can be attributed to the collaborations with third-party brands that began in fall 2007 when it started selling Red Wing boots. The partnerships—in which outside brands design items to be sold through J.Crew—don't make the largest contribution to overall revenues, but they got the industry talking. J.Crew now teams with both contemporary labels—Warehouse, Billykirk, Mister Freedom, and Superior Labor—and heritage brands such as Alden, Levi's, Sperry, Timex, and Ray-Ban. There are 40 partnerships in total, 27 of which have been spearheaded by Muytjens. Some, such as the collaboration with staid English brand Barbour, trend highbrow. Others, such as this fall's line of New Balance sneakers, are less so. "We're trying to make the brand relevant again," says Muytjens. "We're trying to be a little more edgy, a little more classic with the right twist." Or, as Richard E. Jaffe, a retail analyst at investment bank Stifel Nicolaus, says: "They've tried to create a halo around their menswear by incorporating these iconic brands."

When Muytjens moved to J.Crew in 2004, he was instructed to tack upmarket. As the industry was flatlining in 2008—just when he assumed the top menswear job—Muytjens decided to stay the course. "As soon as Frank took over, it was a whole new chapter," say Jim Moore, *GQ*'s creative director. "I feel like our eyes are really open wider to J.Crew and its potential." Muytjens was one of six designers *GQ* singled out for its annual "Best New Menswear Designer in America" award this year. He didn't win, but even being nominated was a coup for a designer for a brand normally lumped in with Gap and Abercrombie & Fitch.

Moore says Muytjens "has a great business plan" in that he works for a large company yet has the freedom to go with his gut. "For example," says Moore, "he keeps bringing back the two suit silhouettes that he's created—the Ludlow and the Aldridge—every season. This is a very smart move because once a guy gets hooked, he's gonna come back. If he loved the khaki suit in the summer, he's gonna come back for the gray flannel suit in the fall. Frank knows that's how guys shop. He manages to be consistent but offers surprises at the same time."

Although the company won't comment on its expansion strategy, analysts expect J.Crew stand-alone men's stores to start popping up in cities such as San Francisco, Los Angeles, Miami, Atlanta, Chicago, and perhaps even secondary and suburban markets. "Regardless of economic conditions," says Drexler, "there will always be a guy who will be searching for what's new, what's exciting, what's scarce. What feels like it might have been in your closet for years—and, frankly, what's special." And so far, he's right. Ⓑ



Muytjens (top right), head of men's design for J.Crew, at work on his collection. Below, his "inspiration board."

J.Crew has partnerships with 40 brands, 27 of which have been spearheaded by Muytjens

TOP RIGHT: PHOTOGRAPHS BY GUIDO VITTI FOR BLOOMBERG BUSINESSWEEK

The Hotel Amenities Arms Race



Best pool: The Qaryat Al Beri in Abu Dhabi



Best spa: The Amanfayun in Hangzhou, China

Properties old and new are getting creative to lure business travelers. Here are the best perks

By Ondine Cohane

▶ **ANTIDOTE FOR WEARY TRAVELERS:** If your airline loses your luggage, the **Stafford London** provides a "First Aid Kit" with toiletries, underwear, and wool socks from luxury brands such as Turnbull & Asser, Rigby & Peller, and New & Lingwood. It also assigns a staff member to haggle with the airline on your behalf.

▶ **BATHROOM:** At Capri's **Punta Tragara**, renovated bathrooms feature views of the Faraglioni rocks in the Bay of Naples from the tub.

▶ **ON-SITE CAR RENTAL:** Hong Kong's **Upper House** keeps a fleet of Lexus RX450 hybrids on call for guests.



▶ **POINTS PROGRAM: Starwood's** guest loyalty program has launched an exclusive partnership with Live Nation offering its guests access to premium seats, backstage passes, and private meet-and-greets. Guests can also arrange private dinners with famous chefs and meetings with Nascar drivers at time trials.

▶ **SPA:** At **Amanfayun** in Hangzhou, China—a three-hour drive from Shanghai—the spa consists of restored traditional village houses repurposed as a reflexology house, bathhouse, gym, Pilates and yoga studio, and a treatment house. Each treatment room comes with a circular soaking tub, rain shower, and steam room.

▶ **IN-ROOM AMENITY:** The new **Aman New Delhi** offers private 160-square-foot plunge pools on room terraces.



▶ **GYM:** Newly renovated **La Mamounia** in Marrakech offers the high-end machines you'd expect. It also has private rooms for yoga, aerobics, and Pilates sessions; a spinning studio; plus indoor pools, a sauna, and Jacuzzi. There are even two clay tennis courts, a ping pong table, and a bowling field.

▶ **LOCAL WINE LIST:** The cellar at **Park Hyatt Buenos Aires** includes 4,000 different bottles of Argentine wine including Paul Hobbs' Viña Cobos malbecs.

▶ **BUSINESS CENTER:** The **Park Hyatt Sydney's** office facility features translators, bookbinding equipment,

PADDLE: DORLING KINDERSLEY/GETTY IMAGES; PUPPY: MARTIN HARVEY/GETTY IMAGES

Ever wanted to drive a golf ball off a Himalayan mountain peak?









Best golf trip: Cox & Kings will have you teeing off in the Himalayas

Best sports view (below): Meydan Hotel and Meydan Racecourse in Dubai

Best bathroom: The Punta Tragara in Capri

teleconference technology, private meeting rooms, and newspapers from around the world.

▶ **ROOM SERVICE MENU:** Restaurateur David Chang recently installed his latest Momofuku outpost, Má Pêche, at the **Chambers Hotel** in midtown Manhattan. Guests can order from either the restaurant's menu or the room service menu, which Chang's team oversees. It includes Vietnamese-inspired items such as rice noodles with spicy pork, and popcorn with nori and chilies.

▶ **PET CARE:** Pooches who check into the **Jumeirah Essex House** in New York find a miniature pop-up tent with a fleece-lined bed, homemade dog treats, and food and water bowls with matching placemats. The hotel also has a so-called pet concierge who will suggest nearby walks.



▶ **TECH TOY** (tie): **Pavillon des Lettres**, opening this fall in Paris, will have iPads in each room stocked with books in several languages. At **GoldenEye**, the Jamaican estate of James Bond lore that reopens in October, rooms contain a Logitech Squeezebox sound system loaded with Island Records-produced music featuring artists like Bob Marley. (The hotel is owned by Island founder Chris Blackwell.)



▶ **GOLF TRIP:** Tour outfitter **Cox & Kings** flies guests by private helicopter from Kathmandu for two holes of golf surrounded by the Himalayas—at 14,500 feet. The course continues at the former royal family's hunting reserve, where the private golf course has equally spectacular views.

▶ **SPORTING VENUE:** Alongside Dubai's Meydan Racecourse, the **Meydan Hotel**, opening in October, allows guests to wade in the roof's infinity pool as they watch the horses circle the track below.

▶ **POOL:** At **Qaryat Al Beri** in Abu Dhabi, a temperature-controlled saltwater infinity pool overlooking the Sheikh Zayed Grand Mosque is programmed to provide a refreshing dip in the hot Arabian summer and a warm swim during the cooler months.

▶ **MINI-BAR:** At the **Andaz Wall Street**, in New York's Financial District, Voss sparkling water, Harney & Sons iced tea, North Fork potato chips, and Jacques Torres chocolate are free.

▶ **PICNIC:** **La Residencia** in Majorca owns three donkeys that carry guests through pinewood forests to a view of the Tramnuntana Mountains and the Mediterranean Sea. Once there, a picnic lunch is made entirely from local foods, including meats, cheeses, and olives. Ⓑ



BlackBerry's Big Leap

With a touchscreen and sliding keyboard, Torch isn't just any old BlackBerry. *By Rich Jaroslovsky*

Many among the digerati dismiss the BlackBerry as a tired remnant of yesterday's technology. And its maker, Research In Motion, often gets lumped with Microsoft and Nokia as wireless pioneers who squandered early advantages and are sinking toward irrelevance. The BlackBerry Torch 9800, which went on sale in the U.S. on Aug. 12, is RIM's latest effort to answer the charge.

The Torch—which will cost $199 with a two-year AT&T contract—is the first BlackBerry to combine its trademark physical keyboard with a touchscreen and the first to run a new operating system, BlackBerry 6. By and large it should succeed in keeping RIM loyalists satisfied. It may also appeal to those who have yet to make the move from more limited devices, though it doesn't provide users of competing smartphones with a compelling reason to switch.

There's no mistaking the Torch for anything but a BlackBerry. It has that classic shape and, unfortunately, heft: It weighs about 5.7 ounces, making it approximately 18 percent heavier than an iPhone 4. That's largely because of the keyboard, which slides out from behind the 3.2-inch screen.

After some trouble setting up the Torch to work with my e-mail system—the phone froze twice while configuring itself—it finally took. From then on it functioned smoothly, providing the same stable and secure e-mail and messaging services that have made BlackBerry so beloved by corporate IT departments—and so frightening to governments like those of Saudi Arabia and the United Arab Emirates, which have threatened to ban or restrict them unless RIM makes it easier to monitor encrypted transmissions.

The interface provided by the new operating system, which will also be available to users of BlackBerry's Bold 9700 and 9650 and Pearl 3G models, is clean and intuitive. The home screen is well laid out, with a separate screen for frequently used applications. Settings and options have been made simpler across the board. The biggest improvement is in surfing the Web: RIM has completely revamped the browser, which is now much faster, toggles more easily between windows, and is better at handling RSS feeds. You can use now-familiar pinch-and-zoom gestures to resize text and images on the screen.

The Torch lacks the élan of the iPhone 4 or Motorola's Droid X. Its application store has only about 9,000 items, a small fraction of the number available for Apple's phones or for Google's Android operating system, and its small screen and software limit its media-playing appeal. Still, BlackBerry enjoys some of the most passionate devotees this side of Steve Jobs, and the Torch provides them with a good reason to stick around. ●

The first phone to use the new BlackBerry 6 operating system

The BlackBerry Torch offers many improvements, but will it be enough to reverse parent company RIM's reputation as a tired brand?



The Torch continues the company's tradition of stable e-mail and messaging services

The biggest improvement: a faster, revamped Web browser

At 5.7 oz., the Torch is about 18 percent heavier than the iPhone 4

The sliding keyboard appeases veteran BlackBerry users

i

BlackBerry Torch 9800

The phone, with 3.2-inch touchscreen, costs $199 with a two-year contract

Learning to Milk a Profit

Sales of Siggi Hilmarsson's eponymous yogurt company grew to $2.6 million last year

Tired of working at Deloitte, an Iceland native dedicated himself to making yogurt

It wasn't the three years of investment banking or the two years at Columbia Business School, or even the year at Deloitte, that led Siggi Hilmarsson to discover his calling. It was a crusty piece of toast that prompted him to leave consulting to make yogurt.

Tired of the carb-centric American diet, the 33-year-old Reykjavic native began whipping up Icelandic-style "skyr" yogurt in his sink. "I felt I was getting 60 percent of my calories from processed sugar with no nutritional benefit," he says. Similar in flavor to Greek strained yogurt but with less sugar and more protein, skyr became his regular snack. As his enthusiasm for it grew, he decided to make the yogurt at a dairy facility. In 2005 he rented space from an upstate New York agricultural school. When plant regulations forbade him from taking the yogurt home unlabeled, he slapped stickers on the cups and named the brand Siggi's. He gave some to friends, one of whom worked for Murray's Cheese shop in Manhattan. If he made enough, she said, Murray's would stock it.

"I didn't like my day job, so I thought I should figure out what to do," he remembers. With "a low five-figure" amount of seed capital from a former professor, Hilmarsson left Deloitte in fall 2005 to focus on Siggi's full-time. In July 2006, Murray's started carrying his yogurt. The following summer, after his own solicitations, New York prepared foods meccas Dean & Deluca and Zabar's followed. When a Whole Foods buyer expressed interest, Hilmarsson knew he needed a real production line. With loans from friends, he built a factory in the central New York city of Norwich in late 2007 and increased production twentyfold.

Whole Foods now sells Siggi's standard and more esoteric flavors—including orange ginger—nationwide. "It's becoming a cult phenomenon," says Errol Schweizer, senior global grocery coordinator for Whole Foods. Last year, Siggi's sales grew to $2.6 million. With six employees, Hilmarsson plans to expand into other Northern European products, though he won't reveal which ones just yet. He's now making about 50% of what he made at Deloitte, but that's not the point. "Maybe," he says, "Americans are realizing they're eating too much processed sugar." *—Alexandra Wolfe*



TOP: PHOTOGRAPH BY ANDREW HETHERINGTON FOR BLOOMBERG BUSINESSWEEK

Blueberry is Siggi's best-selling flavor



SELLING THE ICELANDIC DIET

90,000
Six-ounce cups of yogurt made per week in 2010's first quarter, up from 150 in 2006.

300-350
Cows needed to produce milk for those 90,000 cups of yogurt.

1,500
Stores selling Siggi's (which retails for about $3 per cup), up from two in 2006.

10
Grams of sugar in a six-ounce cup of blueberry Siggi's yogurt. For Yoplait, it's 28.

DATA: SIGGI'S

F.N. Souza's *Untitled (Large Head)*, 1962, oil on canvas (62.625 x 40.375 inches)

Est. Sale Price: $1.2 million to $1.8 million

The Rise of the BRIC Art Economy

Auction houses are wooing newly rich emerging-market collectors with works from home

The art market always follows the money. These days that means courting new collectors from emerging economic superpowers. Auction houses aren't just wooing them with Warhols. They're also whipping up buzz about art from their native countries. And it's working.

The value of pieces from Brazil, Russia, India, and China, the so-called BRIC countries, has skyrocketed in recent years, mirroring each country's economic growth. Auction houses have helped feed the frenzy by extracting BRIC art from their other categories, hosting specialized sales designed to spark the patriotism of the BRIC nouveau riche. Sotheby's has more than doubled its BRIC-oriented offerings in the past decade. Christie's, which says it has Chinese-speaking staff members at all its auction houses, has also significantly upped its collection. In April, Phillips de Pury held the first auction dedicated exclusively to art from all four BRIC nations, bringing in nearly $11 million. Another BRIC auction is scheduled for next April in London.

This fall, Christie's New York will kick off its fall auction season—and the twice-per-year event insiders call "Asia Week"—with a major sale on Sept. 14-16 of Indian and Southeast Asian art, as well as Chinese art and ceramics. Also on Sept. 14, Sotheby's New York will have its own significant Asian auction. In the following two months both Sotheby's and Christie's will host a string of auctions in New York and London dedicated to Latin American, Russian, Indian, and Chinese art. Sotheby's anticipates generating more than $23 million in sales from Asia Week alone (up $4 million from last year). Christie's expects about $56 million, up more than $19 million from 2009.

Among Christie's major Asia Week highlights is an untitled abstract portrait by the late Indian painter F.N. Souza, which is expected to fetch between $1.2 million and $1.8 million. (In June, Christie's auction of works from his estate yielded more than $8 million.) Christie's also has high hopes for archaic Chinese bronzes; some lots are expected to bring in upwards of $1 million apiece.



Subodh Gupta
OK Mili, 2004, stainless steel tiffin boxes, armature (dimensions variable)

Est. Sale Price: $250,000 to $350,000

Christie's New York expects to generate $56 million in sales from next month's Asia Week

Sotheby's most anticipated offerings include Subodh Gupta's *OK Mili* (2004), a hanging sculpture comprising scores of stainless-steel tiffin boxes. Gupta has already benefited from the rise in his country's art economy. At a 2006 Christie's sale, *OK Mili* sold for $144,000, crushing its presale estimate of $25,000. Sotheby's says it hopes to get between $250,000 and $350,000 for it this time around.

Gupta may follow in the footsteps of his wife, Bharti Kher, another newly minted star. Sotheby's London recently sold Kher's *The Skin Speaks a Language Not Its Own* (2006), a sculpture of a dying elephant covered with *bindi*. It fetched $1.49 million—a record for a female contemporary Indian artist at auction. Other ascendant BRIC artists include Russian painters Komar & Melamid, whose *Meeting Between Solzhenitsyn and Böll at Rostropovich's Country House* (1972) was purchased for more than $1 million at Phillips de Pury New York last year. At the same sale, Brazilian conceptualist Lygia Clark's geometric aluminum sculpture, *Bicho* (1960), sold for more than $500,000. "What's amazing about the contemporary art market is how totally global it has become over the last five years," says Simon de Pury, chairman and chief auctioneer at Phillips. "Before, it was still a market totally dominated by North American and West European art."

Some believe these sales are simply the result of the art world's latest marketing ploy. Even so, as the business struggles back to pre-recession activity, few are complaining. "In a changing market, auction houses are more focused on finding clever ways of repackaging material that might otherwise get lost [in more general modern and contemporary sales]," says New York art adviser Allan Schwartzman, who counts Brazilian mega-collector Bernardo Paz among his clients. "When you package this material together, there's a new gloss."

New York's Chinese and Indian art and antiquities galleries will be holding exhibitions of their own during Asia Week with hopes of attracting visiting connoisseurs. Museums are also reinforcing the trend with more BRIC-dedicated shows than ever. "Whenever there is an economic boom in a place, it usually goes hand in hand with a creative burst of energy," de Pury says. "And I think this all is going to continue." At the very least, an economic boom has given new value to these bursts. —*Rachel Wolff*


Souza 62

In its Golden Age, Hollywood press agents learned to monetize the fame of their stars



The Importance Of Being Famous

When did celebrities stop having talent and become ubiquitous?

By Paul M. Barrett

Keeping up with Snooki, aka Nicole Polizzi, has become a full-time job. The recent start of the second season of her MTV reality show, *Jersey Shore*—a chronicle of binge drinking, bed-hopping, and excessive tanning—has received dawn-till-dusk, all-media coverage. When Barack Obama visited ABC gabfest *The View* and professed ignorance about the Snooki phenomenon, well, no one really believed him. Sorry, Gail Collins wrote in *The New York Times*, even the President *must* have heard of Snooki. After all, the *Times* had just published a full-dress profile of the zaftig 22-year-old with the pouf hairdo in which her father marveled at her lack of aptitude—can't sing, can't dance, nothing. Within a couple of news cycles, Snooki fed her fans' hunger for Snooki doings by getting stumble-down drunk and arrested on the beach in Seaside Heights, N.J. She was wearing a T-shirt with the word "Slut" spelled out across the front.

A Short History of Celebrity
By Fred Inglis
PRINCETON UNIVERSITY PRESS, $29.95, 312 pp



Our infatuation with Snooki and her ilk deserves serious consideration, since the nature of such fame says something about the society it reflects. That's one lesson to be drawn from *A Short History of Celebrity* by Fred Inglis. A cultural historian formerly affiliated with Princeton and now with the University of Warwick, Inglis traces the fame business to its roots in 18th century British theater, on through the high fashion of 19th century Paris, and the intersection in New York of Gilded Age superwealth and mass communication. With scholarly dexterity (he's written more than 20 books), Inglis describes the manipulation of political celebrity by the likes of Hitler and Stalin, followed by the postwar democratization of fame, as movie stars, sports heroes, and rock guitarists became leading celebrities.

Through it all, Inglis argues, the lucrative exploitation of the lives of the rich and famous has entailed an appeal to what audiences think of themselves—for better and for worse. Celebrities provide entertainment, sure, but they also satisfy a need for social cohesion. They are characters in a vast morality play, teaching us what, and what not, to do.

TOP: BETTMANN/CORBIS

Until the mid-1700s, Inglis explains, kings, cardinals, and other leading citizens enjoyed "renown" rather than celebrity. "Public recognition," the author writes, "was not so much of the man himself as of the significance of his actions for the society." Queens qualified, too. Elizabeth I was renowned as a monarch, not a mere personality; her fame was "conferred by her people on behalf of God and England." The rise of urban democracy in London "made fame a more transitory reward and changed public acclaim from an expression of devotion into one of celebrity."

Successful merchants and their wives had free time to gossip in elaborate pleasure gardens and attend the burgeoning theater. Artists, composers, and, above all, actors gained recognition for the elevated diversions they offered. They were commoners whose private lives became intermingled with their public accomplishments. It did not go unnoticed among a new class of theatrical impresarios that scandal, especially sexual misdemeanors, enhanced a star's glamour quotient. Actress Sarah Siddons elicited audience tears for her stage performances in the 1770s. A friend of Queen Charlotte, she was rumored to be the mistress of not only a well-known painter but a fencing master, too. In a gesture familiar to devotees of Angelina Jolie and Madonna, Siddons received visitors while in the midst of what Inglis calls the "ostentatious mothering of her children": using her foot to rock the crib of one while holding another to her breast. Fans simultaneously adored and deplored her, a love-hate dynamic that still defines the culture of celebrity today.

Extravagance acquired a French accent with the rise of haute couture in the mid-1800s. The Parisian department store provided ordinary Sunday strollers with greater access to the trappings of luxury. Paris exported versatile celebrities, such as the stylish Sarah Bernhardt. Improved transatlantic transportation allowed the trend-setting performer to tour America frequently. In New York she stopped traffic. "She travelled crazily, accompanied by her pet lynx, alligator, [and] python." Public and private merged. "I've always acted," Bernhardt wrote. "I never stop. ... I am my own double."

From the 1880s into the early 20th century the American Robber Barons indulged in a degree of conspicuous consumption that made them the focus of a new variation of fame: that of the fantastically wealthy. At the same time celebrity became industrialized via the proliferating media. Press lords Hearst and Pulitzer discovered that papers sold more briskly if gossip columns mingled sightings of the ultra-rich with those of actors starring on Broadway and, later, in Hollywood. Radio, movies, television—each made it easier and more profitable to market fame to the masses. Hollywood studios hired promotion departments that anointed screen idols like Marilyn Monroe and orchestrated innuendo about their bedroom affairs. B-movie actors were recast as corporate pitchmen—and, in the case of Ronald Reagan, as leader of the free world. Taking cues from the commercial celebrity complex, the political Establishment learned to sell personal glamour, from the New Frontier shimmer of Jack and Jackie's Camelot to the brainy sparkle of the Obamas' Hope campaign.

For the paperback edition, the author ought to address the conundrum of the current crop of talent-free celebrity. How to explain Paris Hilton, Kate Gosselin, and Snooki? Historically, celebrity stirred conflicting emotions of adoration and jealousy. Does anyone admire the contemporary train wrecks, notorious for being self-destructively notorious? As Snooki's puzzled father observed, reality TV stars often have no discernible skill beyond getting wasted and throwing up. Now that everyone is the star of their own homemade YouTube video, their willingness to do so on camera too often explains the extent of their appeal. **B**

B-movie actors became cast as corporate pitchmen—and, in one case, leader of the free world

The Evolution of Celebrity

Talent, beauty, or wealth have traditionally fueled fame—at least until recently



1. Sarah Siddons (1755-1831)
The great London actress's private life fascinated theater goers just as much as her stage performances.

2. J.P. Morgan (1837-1913)
Extraordinary wealth, described in the burgeoning U.S. popular press, helped create a new form of celebrity.

3. Sarah Bernhardt (1844-1923)
Improved transatlantic transportation helped the versatile French performer craft a truly international image.

4. Diana Spencer (1961-97)
The shy aristocrat married into royal celebrity and was subsequently canonized as a victim of the fame industry.

5. Tiger Woods (1975-)
The sports hero cashed in efficiently on corporate sponsorships, but his carefully shaped persona was crushed by sexual scandal.

6. Snooki (1987-)
Bereft of any discernible talent, Nicole Polizzi typifies the reality television flavor of fame based solely on notoriety.

BERNHARDT: HULTON ARCHIVE/GETTY IMAGES; MORGAN: BETTMANN/CORBIS; DIANA: TIM GRAHAM/GETTY IMAGES; WOODS: ANDREW REDINGTON/GETTY IMAGES; POLIZZI: BOBBY BANK/GETTY IMAGES

Bloomberg Businessweek (USPS 080 900) August 16 – August 29, 2010 (ISSN 0007-7135) S T Issue no. 4192. Published weekly, except for a double issue in August and one in December, by Bloomberg L.P. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Executive, Editorial, Circulation, and Advertising Offices: Bloomberg Businessweek, 731 Lexington Avenue, New York, NY 10022. **Postmaster:** Send address changes to Bloomberg Businessweek, P.O. Box 8418, Red Oak, IA 51591-1418. Canada Post Publication Mail Agreement Number 41989020. Return undeliverable Canadian addresses to DHL Global Mail, 355 Admiral Blvd-Unit4, Mississauga, ON L5T 2N1. Email: bwkcustserv@cdsfulfillment.com. QST#1008327064. Registered for GST as Bloomberg L.P. GST #12829 9898 RT0001. Copyright 2010 Bloomberg L.P. All rights reserved. Title registered in the U.S. Patent Office. Single Copy Sales: Call 800-298-9867 or email: busweek@nrmsinc.com. Subscriber Services: Call 800-635-1200 or log onto our website: http://www.businessweek.com/custserv/manage.htm. Photocopy Permission: Where necessary, permission is granted by copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923 or email the CCC at info@copyright.com. Custom Reprints: For customized bulk reprints of Bloomberg Businessweek articles, contact The YGS Group at 800-360-5549 or email: businessweekreprints@theYGSgroup.com PRINTED IN THE U.S.A.

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Carol Bartz

"I was absolutely certain I wouldn't take the Yahoo job. If I wanted to be a CEO, I would have stayed at Autodesk"

The former CEO of Autodesk on deciding to turn down the top post at Yahoo!–and eventually reconsidering



I was adamant about not running another company after I left Autodesk in 2006. When I stepped down, I had been CEO for 14 years. We had gone through two or three downturns in the economy, shifts in technology, and the Internet. I just knew it was time to pass the torch.

When Jerry Yang and I were at a Cisco board meeting in 2008, he said, "Would you be interested in the Yahoo! job?" My immediate reaction was, "No. I'm not the right person. Find someone from the media." I was absolutely certain I wouldn't take the job. If I wanted to be a CEO, I would have stayed at Autodesk.

I wasn't sure whether I liked the business, but I was intrigued by the challenge. I didn't come out of this industry, but I didn't come out of the [computer-aided design] industry either when I went to Autodesk. As I explored Yahoo–reluctantly–I realized that what they needed was strong management at the top to streamline the organization and unlock the creativity. The company was siloed. People weren't speaking to each other. I had to be sold on taking the reins again, but the more I thought about Yahoo, the more I could see a role for me there.

I told Jerry and the board that I didn't have a plan, that I wouldn't have one until I got in there. I'm a good listener. I'm not afraid to make a decision, even the wrong one. My motto is "fail fast forward." You can fail, just do it fast and move forward. I think people get better when they fail. It's just the willingness to be wrong.

I didn't realize how much I'd missed the action until I joined. I'm in a different place now. I was totally naive when I went to Autodesk. I was no more a functional CEO than my dog is. That was really learning on the job, but it was a much quieter time in the industry. Nobody was tweeting my every move. I had pressure, but I didn't know what I was doing. This time, I had 17 more years of skills. There are some things age does bring you. I like to talk about careers as a pyramid, not a ladder. With a broad base of experience, you have a sturdier foundation.

—As told to Diane Brady

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